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IN THE UNITED STATES PATENT AND TRADEMARK OFFICE
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

Proceeding	91194218
Party	Plaintiff Illumina, Inc.
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Submission	Plaintiff's Notice of Reliance
Filer's Name	Brian C. Horne
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Attachments	PUBLIC Signed Dec of Karen Possemato with redactions.pdf(1231399 bytes) Exhibit 3 [ILLUM-0606].pdf(90814 bytes) Exhibit 17 [ILLUM-1877-1878].pdf(341304 bytes) Exhibit 22 [ILLUM-1587-1589].pdf(679255 bytes) Exhibit 25 [ILLUM-1186-1199].pdf(2367103 bytes) Exhibit 34 [ILLUM-1590-1595].pdf(916951 bytes) Exhibit 201 [ILLUM-0766-809].pdf(3202090 bytes) Exhibit 202 [ILLUM-0810-855, 959-980].pdf(4365606 bytes) Exhibit 203 [ILLUM-0185-186].pdf(276795 bytes) Exhibit 204 [ILLUM-3668-3669].pdf(203681 bytes) Exhibit 205 [ILLUM-0953-954].pdf(211881 bytes) Exhibit 206 [ILLUM-1807-1808].pdf(538592 bytes) Exhibit 207 [ILLUM-1783-1784].pdf(217682 bytes) Exhibit 208 [ILLUM-1781-1782].pdf(276289 bytes) Exhibit 209 [ILLUM-1785-1786].pdf(216723 bytes) Exhibit 210 [ILLUM-1775-1776].pdf(198267 bytes) Exhibit 211 [ILLUM-1813-1814].pdf(220994 bytes) Exhibit 212 [ILLUM-1815-1817].pdf(367760 bytes) Exhibit 213 [ILLUM-1811-1812].pdf(209626 bytes) Exhibit 214 [ILLUM-0856-863].pdf(1124041 bytes) Exhibit 215 [ILLUM-0864-880].pdf(3464479 bytes) Exhibit 216 [ILLUM-1902].pdf(2158869 bytes) Exhibit 217 [ILLUM-1998].pdf(2263933 bytes) Exhibit 218 [ILLUM-2092].pdf(2050216 bytes) Exhibit 219 [ILLUM-2196].pdf(1766189 bytes) Exhibit 220 [ILLUM-2303].pdf(1887007 bytes) Exhibit 221 [ILLUM-2402].pdf(2727735 bytes) Exhibit 222 [ILLUM-2492].pdf(2908583 bytes) Exhibit 223 [ILLUM-2588].pdf(2018915 bytes) Exhibit 224 [ILLUM-2745].pdf(2280424 bytes) Exhibit 225 [ILLUM-2866].pdf(2467340 bytes) Exhibit 226 [ILLUM-3065].pdf(1371298 bytes) Exhibit 227 [ILLUM-3104].pdf(1591655 bytes) Exhibit 228 [ILLUM-3148].pdf(1558580 bytes) Exhibit 229 [ILLUM-0924-952].pdf(4693437 bytes) Exhibit 230.pdf(285300 bytes)

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

Illumina, Inc.,	)	Opposition No.: 91194218
	)	
Opposer,	)	
	)	
v.	)	
	)	
Meridian Bioscience, Inc.,	)	
	)	
Applicant.	)	
	)	

DECLARATION OF KAREN POSSEMATO

I, Karen Possemato, declare as follows:

1. I have personal knowledge of the matters set forth herein and if called upon to testify, I could and would competently testify thereto.

2. I have been employed with Illumina, Inc. ("Illumina") since April 2004. In my current role as Chief of Staff I am responsible for communications, operations, and projects for the offices of the CEO and the President. In my previous role as Senior Director, Corporate Marketing, I was responsible for building Illumina's marketing organization and developing the strategic and tactical marketing of the company. I am familiar with the history of Illumina, including the development and marketing of its products and services. I am also familiar with Illumina's use of the marks ILLUMINA®, ILLUMINADX®, ILLUMINOTES™, and ILLUMICODE™.

3. Illumina is a global company that develops, manufactures, and markets genetic analysis tools and integrated systems for the analysis of genetic variation and function, and provides services related to the same. More specifically, Illumina develops and sells innovative array- and sequencing-based solutions for DNA and RNA analysis that serve as tools for

disease research and diagnosis, drug development, and for the development of molecular tests in the clinic. Illumina products and services serve life-sciences research, applied markets, and the molecular diagnostics market (which is part of the clinical diagnostic market). True and correct copies of Illumina marketing brochures and pages from Illumina's website <<www.illumina.com>> expounding on Illumina's commercial activities are attached hereto as Exhibit 201.

4. DNA sequencing is the process of determining the precise order of nucleotides, which are organic molecules that serve as subunits within a DNA molecule. DNA sequencing generally includes any method or technology that is used to determine the order of nucleotides in a strand of DNA.

5. By contrast, genotyping generally includes determining differences in the genetic make-up (genotype) of an individual or substance by examining specific portions of a DNA sequence and comparing that portion to a reference sequence.

6. Genotyping is often performed using "array" technology. Array technology generally refers to a collection of microscopic regions of DNA attached to a solid surface. Each region contains a specific DNA sequence, known as a probe. An array is used to determine whether a DNA sample contains the precise DNA sequence that corresponds to the probe on the region. For example, a sample from a human would be treated and then placed on the array. The array is then placed into a certain type of machine called a reader, which can determine whether a certain type of DNA sequence is present in the sample. This can indicate, for example, the presence of a disease, such as an infectious disease.

7. Since its founding, Illumina has extensively used ILLUMINA® as a house and product mark for its products and services. Illumina was founded in 1998 based on array technology.

8. Illumina first offered its array technology as part of its FastTrack™ services, through which customers would send a sample that Illumina would genotype at its own lab using

its array technology.

9. In 2002, Illumina began offering the applications that were previously available through its FastTrack™ services as the Illumina® BeadLab™. Essentially, Illumina would install a lab at its customers institutions based on the lab footprint of Illumina's own FastTrack™ services lab. The Illumina® BeadLab™ was customizable to meet each customer's specific needs, and included a number of readers, such as Illumina's BeadArray™ Reader, among other components used in the FastTrack™ services lab. By installing the Illumina® BeadLab™ at its customer's institutions, Illumina's customers were able to perform the same type of genotyping services offered through Illumina's FastTrack™ services.

10. Illumina's next product, the Illumina® BeadStation™, was also sold under the ILLUMINA® mark beginning in 2005. The BeadStation™ was a small-scale version of the Illumina® BeadLab™, being offered at a fraction of the cost—several hundred thousand dollars versus millions. The BeadStation™ included one BeadArray™ reader and was used by customers who did not need the capability of running thousands of arrays at a time.

11. Illumina has since developed a comprehensive line of products that address the scale and throughput of genetic analysis required to achieve the goals of precision/personalized medicine. Currently, Illumina's product line includes market-leading solutions for targeted to whole-genome sequencing and array based analysis. Illumina's products and services serve a range of interconnected markets, including life sciences, oncology, reproductive health, forensics, agrigenomics, population sequencing, consumer genomics and public health and its products are used by a broad range of genomic research centers, academic institutions, government laboratories, hospitals clinical research organizations, clinical diagnostic labs, and clinical reference labs, as well as pharmaceutical, biotechnology and consumer companies. All of Illumina's products and services are branded with the ILLUMINA® mark. Representative examples of the use of the ILLUMINA® mark are attached hereto as Exhibit 202.

12. Although Illumina began as a research company, it always aimed to enter the

clinical diagnostics market. For example, although Illumina's first products were used for genotyping, a major focus of genomics is to be able to more effectively diagnose and treat patients.

13. Thus, in 2005, in order to expand its footprint in the molecular/clinical diagnostic market, Illumina acquired a company named CyVera Corp. That acquisition gave Illumina access to a certain type of array technology called VeraCode®. As is the case with all of Illumina's products, Illumina branded its VeraCode® product with its ILLUMINA® mark. Illumina planned to develop VeraCode® into a diagnostics product. VeraCode® was similar to Illumina's other array technology. But rather than regions of nucleic acid on a chip, VeraCode® can include nucleic acid on glass beads suspended in a solution in a vial. The beads would be put into Illumina's BeadXpress® reader, which would read them individually.

14. In 2005, after purchasing CyVera, Illumina hired Mickie Henshall as the Associate Director Product Marketing, Diagnostics. Illumina hired Ms. Henshall to work exclusively on the marketing and promotion of Illumina's diagnostic products and services.

15. In addition to acquiring CyVera, Illumina collaborated with other companies as early as 2006 to bring its array technology to the diagnostic market. For example, in 2006, Illumina entered into an agreement to work with deCODE Genetics, Inc., to develop and commercialize DNA-based diagnostics in several major disease areas. Prior to its collaboration with Illumina, deCODE had developed various biomarkers that show an association to disease outcomes such as Alzheimer's and various other inherited diseases. Illumina and deCODE used Illumina's array technology to develop diagnostic tests for variants in genes linked to heart attack, type-2 diabetes, and breast cancer. Illumina and deCODE publically announced this collaboration. Attached hereto as Exhibit 3 is a true and correct copy of a public article from genomeweb.com dated May 15, 2006, describing the collaboration

16. Illumina also collaborated with ReaMetrix, Inc. in 2006. The companies planned to co-develop molecular diagnostic panels for a range of disease areas, including diabetes and

cardiovascular disease. The companies agreed that Illumina would provide its VeraCode® technology, and ReaMetrix would develop, validate, and market diagnostic tests based upon Illumina's BeadXpress® diagnostic platform. Illumina and ReaMetrix publically announced this collaboration in July 2006. Attached hereto as Exhibit 203 is a true and correct copy of an Illumina press release dated July 20, 2006, regarding the collaboration.

17. In January 2008, Illumina created a Diagnostics Business Unit in order to expand its presence in the molecular diagnostics market (which is part of the clinical diagnostic market) and manage its diagnostics products. By this time, Illumina had also formed a regulatory and quality group to support its growth in the molecular diagnostics market.

18. In October 2009, Illumina filed two submissions for FDA clearance in connection with its BeadXpress® platform. The first submission was for in-vitro diagnostic use of the BeadXpress® System with cleared genotyping tests. Illumina's second submission was for its VeraCode® in-vitro diagnostic genotyping test for Factor V and Factor II. Patients with Factor V and Factor II mutations have an inherited blood clotting disorder known as thrombophilia, which increases the patient's risk for venous thrombosis. The FDA cleared both of Illumina's submissions in April 2010.

19. In January 2011, Illumina acquired Epicentre Biotechnologies Corporation. Epicentre manufactures specialty enzymes and biological preparations for use in molecular biology research and medical diagnostics. For example, Epicentre markets the QuickExtract™ Bacterial DNA Extraction Kit. This kit provides a simple method for extracting DNA for use with applications such as creation of lab-developed tests, and has been tested with a range of bacteria, including *Streptococcal* bacteria, *E. Coli*, and *Salmonella typhimurium*. Accordingly, this kit is useful across a number of fields, including in life-sciences research, applied markets, and the molecular diagnostics market. Attached hereto as Exhibit 204 is a true and correct copy of a QuickExtract™ Bacterial DNA Extraction Kit information sheet. Attached hereto as Exhibit 205 is a true and correct copy of an Illumina press release dated January 11, 2011, about this

acquisition and the products now manufactured by Illumina. Although the "EpiCentre" brand was kept as a child brand after the initial acquisition, Illumina soon began branding the QuickExtract™ Bacterial DNA Extraction Kit as "EpiCentre, an Illumina company."

20. In 2011, Illumina began a reorganization that created three business units—Diagnostics, Life Sciences, and Translational & Consumer Genomics ("TCG"). Illumina's Diagnostics unit was focused on FDA-cleared in-vitro diagnostic offerings.

21. In October 2013, Illumina announced its most-recent reorganization undertaken to maintain growth in its existing markets and to enable Illumina to move into new markets. For example, Illumina has reorganized into five business units, including a new Oncology business unit to serve the cancer diagnostics field.

22. Illumina also entered the diagnostics market with its DNA sequencing business.

23. In 2007, Illumina acquired Solexa, Inc., a company that had developed a new method for genome sequencing referred to as next generation sequencing ("NGS"). As sequencing technology has improved over the years, the cost of sequencing a human genome has decreased from $3 billion to $1,000. These advances have made sequencing technology more accessible, which in turn has increased the applications for sequencing, and in particular NGS technology, including for use in clinical diagnostics. Illumina has been credited with achieving many of the technological advances that reduced the cost of sequencing a human genome.

24. Indeed, many genome sequencing projects have shared the common goal of understanding how genetics influence human health. For example, beginning with the Human Genome Project, which was the first effort to sequence an entire human genome, a number of public projects have ensued to find the genetic underpinnings of human health. More specifically, the International HapMap Project began in 2002 with the goal of developing a haplotype map ("HapMap") of the human genome. The purpose of the map was to catalogue common genetic variations among humans to establish connections with diseases. The project

used Illumina arrays. In 2007, the National Human Genome Research Institute (NHGRI) began its ClinSeq project, which examined genome sequencing in clinical research. The project used Illumina sequencers. The International Cancer Genome Consortium, which was founded in 2008, aimed to generate a catalogue of genetic abnormalities in tumors which are of clinical importance. Illumina was selected as a preferred vendor in 2011. The 1000 Genomes Project began in 2008. This was an effort to sequence 1000 genomes to create a picture of human genetic variation with clinical utility. Illumina scientists were collaborators on the program.

25. Since the completion of the Human Genome Project in 2001, genetic sequencing has been moving into clinical diagnostic applications. One of the first goals was to enable more economic whole-genome sequencing so that whole-genome sequencing can realistically and practically be used for diagnostic applications. Illumina made this possible with the launch of its HiSeq® sequencer in 2010. Since then, Illumina has launched additional sequencing instruments that have further increased the utility of sequencing in clinical diagnostic applications. For example, Illumina launched its MiSeq® instrument in 2011, which is smaller and less expensive than Illumina's HiSeq®, and allows for more focused sequencing applications.

26. In November 2011, Illumina partnered with Siemens Healthcare Diagnostics to make Siemens' molecular HIV tests compatible with Illumina's MiSeq® platform and to develop additional sequencing-based infectious disease assays for the clinical diagnostics market. Attached hereto as Exhibit 17 is a true and correct copy of a news article dated November 2, 2011, announcing Illumina's partnership with Siemens. Illumina's MiSeq® bench-top sequencing system uses NGS technology for genome sequencing. Through its partnership with Siemens, Illumina sought to drive adoption of its NGS technology in the clinical diagnostics market.

27. Illumina also began offering diagnostic whole-genome sequencing on its HiSeq 2500 by September 2012. Illumina's diagnostic whole-genome sequencing services require a

physician's prescription and are performed in Illumina's CLIA-certified lab. "CLIA" refers to the Clinical Laboratory Improvement Amendments of 1988, which are federal regulatory standards for clinical laboratory testing. In the United States, any facility that performs laboratory testing on human-derived specimens for the purpose of providing information for diagnosis, prevention, or treatment of disease or impairment, or for health assessments must be CLIA-certified. Attached hereto as Exhibit 22 is a true and correct copy of a news article dated September 12, 2012 discussing Illumina's TruSight® products and diagnostic whole-genome sequencing services.

28. During the 2012-13 timeframe, Illumina was looking to acquire companies to expand its presence in the diagnostic space.

29. In January 2013, Illumina further expanded its push into the diagnostics business through its acquisition of Verinata Health. Attached hereto as Exhibit 25 is a true and correct copy of a news article dated January 7, 2013, discussing this acquisition.

30. Verinata's verifi® test is a non-invasive prenatal test that is used to diagnose genetic diseases, such as Down syndrome. The verifi® test uses DNA sequencing to analyze fragments of fetal DNA that can be found in a pregnant woman's blood, offering a non-invasive alternative to traditional invasive tests like amniocentesis, which carry a slight risk of inducing miscarriage. Indeed, such non-invasive tests are quickly becoming the standard of care, providing higher quality data with less risk than an amniocentesis. Attached hereto as Exhibit 206 is a true and correct copy of an Illumina press release dated November 1, 2013, announcing the availability of the verifi® test to pregnant women in California through California's Prenatal Screening Program.

31. Moreover, other non-invasive pre-natal testing companies are using Illumina sequencers to develop their own non-invasive prenatal diagnostic tests. For example, Illumina entered into an agreement with Natera, Inc., in September 2013 to supply Natera with Illumina's HiSeq® 2500 sequencing system for performing Natera's non-invasive prenatal test,

Panorama™. Attached hereto as Exhibit 207 is a true and correct copy of an Illumina press release dated September 4, 2013, announcing the agreement with Natera.

32. In July 2013, HistoGenetics, the leader in high-resolution sequence-based human leukocyte antigen ("HLA") testing services, selected the MiSeq® system for use in its CLIA laboratory. HistoGenetics will use Illumina's MiSeq® system to sequence HLA genes, variations of which have known associations with a wide variety of autoimmune diseases, infectious diseases, and some cancers. Attached hereto as Exhibit 208 is a true and correct copy of an Illumina press release dated July 22, 2013, announcing HistoGenetics' selection of Illumina's MiSeq® system.

33. By July 2013, Illumina applied the CE mark to its MiSeqDx® Cystic Fibrosis System, and was finalizing plans to commercialize this system in a number of European countries. CE marks are a mandatory conformity marking for certain products, including in-vitro diagnostic medical devices, sold within the European Economic Area. Illumina's MiSeqDx® Cystic Fibrosis System was developed for the clinical molecular diagnostics market and leverages Illumina's NGS technology to provide rapid and accurate identification of variants in the cystic fibrosis transmembrane conductance regulator ("CFTR") gene. By sequencing the entire CFTR gene, the MiSeqDx® Cystic Fibrosis System shortens the time for clinical diagnosis of cystic fibrosis, a life-threatening, inherited disorder. Attached hereto as Exhibit 209 is a true and correct copy of an Illumina press release dated July 1, 2013, announcing Illumina's application of the CE mark to its MiSeqDx® Cystic Fibrosis System.

34. In September 2013, Illumina applied the CE mark to an expanded use of the MiSeqDx® System in clinical diagnostic laboratories, allowing these laboratories to develop diagnostic tests using Illumina's MiSeqDx® Universal Kit on the MiSeqDx®. Such use greatly expands the opportunity for clinical diagnostic laboratories to offer diagnostic tests for wide-ranging applications including genetic and infectious diseases and cancer. Attached hereto as Exhibit 210 is a true and correct copy of an Illumina press release dated September 25, 2013,

announcing Illumina's application of the CE mark to expanded use of the MiSeqDx® System.

35. The reagents used with the CE-marked MiSeqDx Systems discussed in the previous two paragraphs were manufactured in the United States and sent to Europe bearing the ILLUMINA mark.

36. In November 2013, Illumina received FDA clearance to sell its MiSeqDx® sequencers for open-use, which allows Illumina to promote the MiSeqDx® to clinical diagnostic laboratories for the development of their clinical diagnostic tests. The FDA also cleared two tests for cystic fibrosis to be performed on the MiSeqDx®. Attached hereto as Exhibit 34 is a true and correct copy of a news article dated November 26, 2013, discussing the FDA clearance of Illumina's MiSeqDx® platform and cystic fibrosis tests.

37. As stated above, FDA-clearance as an open-use platform allows Illumina customers to use the MiSeqDx® to develop their own clinical diagnostic tests. As one example, in January 2014 Illumina entered into a multi-year agreement with Quest Diagnostics, one of the largest clinical diagnostic labs in the United States. That agreement gave Quest rights to use Illumina's sequencing and array technology to develop and commercialize its own diagnostic tests. Attached hereto as Exhibit 211 is a true and correct copy of an Illumina press release dated January 9, 2014, announcing the agreement with Quest.

38. In January 2014, Illumina announced its plan to submit an in-vitro diagnostic version of the HiSeq® 2500 system for FDA premarket clearance by the end of 2014. Attached hereto as Exhibit 212 is a true and correct copy of an Illumina press release dated January 16, 2014, discussing Illumina's plan for market expansion.

39. Illumina also intends to develop tests with its other partners to bring NGS to clinical diagnostics. For example, Illumina has partnered with Amgen, Inc., to develop a test for companion diagnostics for Amgen's colon cancer drug. Through this partnership, Illumina and Amgen hope to develop a test used to identify candidates for treatment with Amgen's Vectibix® for metastatic colorectal cancer. Attached hereto as Exhibit 213 is a true and correct copy of an

Illumina press release dated January 15, 2014, announcing the agreement with Amgen. In June 2014, Illumina also entered into a multi-year supply agreement with LabCorp, another of the largest clinical diagnostic labs in the United States. The agreement allows LabCorp to purchase a broad range of Illumina products for the development of diagnostic tools in multiple specialties such as genetic testing, oncology, transplant medicine, and forensics.

40. Since at least as early as August 2002, Illumina has used and continues to use the mark ILLUMICODE™ in connection with DNA microarrays. Representative examples of the use of the ILLUMICODE™ mark are attached hereto as Exhibit 214.

41. Since at least as early as April 2006, Illumina has used and continues to use the mark ILLUMINOTES™ in connection with newsletters featuring information in the fields of nucleic acid sequencing and genotyping, medical diagnostics, medical research, life sciences , biology, molecular pathology, molecular diagnostics, laboratory medicine, biotechnology, and genetics. Representative examples of the use of the ILLUMINOTES™ mark are attached hereto as Exhibit 215.

42. Illumina is a publicly traded company (NASDAQ) with a current market capitalization of just over $25 billion. Attached hereto as Exhibit 216 is a true and correct copy of an excerpt of Illumina's publicly reported annual financial results for 2003 showing Illumina's statement of operations data. Attached hereto as Exhibit 217 is a true and correct copy of an excerpt of Illumina's publicly reported annual financial results for 2004 showing Illumina's statement of operations data. Attached hereto as Exhibit 218is a true and correct copy of an excerpt of Illumina's publicly reported annual financial results for 2005 showing Illumina's statement of operations data. Attached hereto as Exhibit 219 is a true and correct copy of an excerpt of Illumina's publicly reported annual financial results for 2006 showing Illumina's statement of operations data. Attached hereto as Exhibit 220 is a true and correct copy of an excerpt of Illumina's publicly reported annual financial results for 2007 showing Illumina's statement of operations data. Attached hereto as Exhibit 221 is a true and correct copy of an

excerpt of Illumina's publicly reported annual financial results for 2008 showing Illumina's statement of operations data. Attached hereto as Exhibit 222 is a true and correct copy of an excerpt of Illumina's publicly reported annual financial results for 2009 showing Illumina's statement of operations data. Attached hereto as Exhibit 223 is a true and correct copy of an excerpt of Illumina's publicly reported annual financial results for 2010 showing Illumina's statement of operations data. Attached hereto as Exhibit 224 is a true and correct copy of an excerpt of Illumina's publicly reported annual financial results for 2011 showing Illumina's statement of operations data. Attached hereto as Exhibit 225 is a true and correct copy of an excerpt of Illumina's publicly reported annual financial results for 2012 showing Illumina's statement of operations data. Attached hereto as Exhibit 226 is a true and correct copy of an excerpt of Illumina's publicly report financial results for the quarterly period ending March 21, 2013. Attached hereto as Exhibit 227 is a true and correct copy of an excerpt of Illumina's publicly report financial results for the quarterly period ending June 30, 2013. Attached hereto as Exhibit 228 is a true and correct copy of an excerpt of Illumina's publicly report financial results for the quarterly period ending September 29, 2013.

43. Illumina is a well-known technology company and has frequently been noted to be an industry leader. True and correct copies of articles discussing Illumina are attached hereto as Exhibit 229.

44. Illumina has a significant budget for marketing and selling its products and services. During the period of January 2008 through December 31, 2013, Illumina has spent over [redacted] in advertising production cost, space and fees, over [redacted] in direct marketing and electronic marketing and over [redacted] in public relations including news releases and agency fees. These expenditures represent just a portion of Illumina's total marketing expenses during the noted period. Approximately [redacted] of these marketing expenses were targeted to clinical diagnostic customers.

45. I am familiar with Genomeweb and Bio-IT World, which are publications cited in

Illumina's declarations and notice of reliance.

46. Genomeweb is an online publisher that, according to its website http://www.genomeweb.com/about, serves "the global community of scientists, technology professionals, and executives who use and develop tools in molecular biology research and molecular diagnostics." This online resource and series of e-newsletters is focused on the science of genomics and the application of genomic technology in a variety of markets, as well as the business news in the field. Genomeweb's newsletter areas of focus are reflective of this. (*See* http://www.genomeweb.com/subscriptions.) Genomeweb is used and read in both clinical and research environments as Genomeweb is a great "central source" to track the genomics industry and its impacts. In March 2011, Genomeweb launched Clinical Sequencing News due to increasing demand for coverage of the rapid migration of genomics into the clinical space.

47. I recently ran a key word search for "illumigene" on Genombeweb's website. The search returned a number of articles about Meridian and its Illumigene products. The search also asked "Did you mean: Illumina". Exhibit 230 attached hereto is a true and correct copy of the results of my search.

48. Bio-IT World's Weekly Update newsletter and News Bulletins, according to its website http://www.bio-itworld.com/bioit_Content.aspx?id=137901, "cover the application of informatics, IT and computer science in biomedical research and drug discovery." Because genomics generates patient data (genomic data) that needs to be integrated with other electronic data in health management, NGS, consumer genomics, personalized medicine, and patient stratification are all topics of interest. Bio-IT World also holds events covering various topics across the research health-care spectrum. (*See* http://www.bio-itworld.com/Featured_Events.aspx.) Illumina has advertised in this publication in the past to reach clinicians, hospital Chief Information Officers, and other clinical audiences, as well as research customers interested in IT-related genomic challenges.

49. I have also reviewed the website of another publication, Clinica. According to its

website http://www.clinica.co.uk/aboutus/, Clinica is a "leading source of regulatory, market and competitor information for the medical devices and diagnostics industries. The main product sectors covered by Clinica include cardiovascular, IVDs, orthopaedics, surgical & wound care, cellular & genetic and neurological."

50. I have also reviewed the website of another publication, IVD Technology, which is now called Medical Device And Diagnostic Industry (MD+DI). IVD Technology is, according to its website http://www.mddionline.com/about, "an online and print resource exclusively for original equipment manufacturers of medical devices and in vitro diagnostic products."

The undersigned being warned that willful false statements and the like are punishable by fine or imprisonment, or both, under 18 U.S.C. 1001, and that such willful false statements and the like may jeopardize the validity of the application or document or any registration resulting therefrom, declares that all statements made of his/her own knowledge are true; and all statements made on information and belief are believed to be true.

Executed this 7th day of November 2014 at San Diego, California

Karen Possemato

Karen Possemato

19284189

CERTIFICATE OF SERVICE

I hereby certify that I served a copy of the foregoing OPPOSER'S DECLARATION OF KAREN POSSEMATO upon Applicant's counsel by depositing one copy thereof in the United States Mail, first-class postage prepaid, on November 7, 2014, addressed as follows:

J. Michael Hurst
Keating Muething & Klekamp PLL
One East 4th Street
Suite 1400
Cincinnati, OH 45202

Sarah Beno Couvillion

Exhibit 3

genomeweb

Decode, Illumina to Co-develop, Sell Molecular Diagnostics

May 15, 2006

Decode, Illumina to Co-develop, Sell Molecular Diagnostics

By a GenomeWeb staff reporter

NEW YORK, May 15 (GenomeWeb News) - Decode Genetics and Illumina plan to co-develop and commercialize DNA-based diagnostics in several major disease areas, the firms said today.

According to the firms, the partnership will use Illumina's platform for high-multiplex SNP-genotyping to develop diagnostics for gene variants that Decode has shown to be risk factors for various diseases.

Under the terms of the agreement, Illumina will gain access to disease-related biomarkers, which will be jointly validated as diagnostic panels. Illumina will market and sell these on its forthcoming BeadXpress platform, the partners said.

Illumina will also install its SNP-genotyping platform at Decode's labs in Iceland.

Initially, the companies will focus on the gene encoding leukotriene A4 hydrolase, which has been linked to heart attack; the gene encoding transcription factor 7-like 2, which is linked to type II diabetes; and the gene encoding BARD1, which is linked to breast cancer.

The companies will share development costs and split the profits from sales of the diagnostics tests.

Exhibit 17

IVDTInsight

A blog from the editors of IVD Technology

Siemens, Illumina Partner on Infectious Disease Testing Using Next-Generation Sequencing

Posted: November 2, 2011

Share

Siemens Healthcare Diagnostics and Illumina have entered into a partnership aimed at setting new standards in the use of next-generation sequencing for the rapid, accurate identification of patients' infectious disease states and potential treatment paths. Through this agreement, the companies plan to make existing Siemens molecular HIV tests compatible with the recently launched Illumina MiSeq next-generation sequencing platform, with the ultimate goal of introducing breakthrough sequencing-based infectious disease assays for the clinical diagnostics market.

"Next-generation sequencing is a transformational technology that we believe will significantly impact clinical diagnostics over the next five years," said Michael Reitermann, CEO, Siemens Healthcare Diagnostics. "Our partnership with Illumina brings together two innovation leaders to set a new standard of care in the next wave of clinical diagnostics and personalized medicine."

Next-generation genome sequencing (DNA sequencing) is the determination of the precise sequence of nucleotides in a sample of DNA. These data points help provide physicians with deeper insights into patients' genetic characteristics, including suitability to drug regimens based on the genetic profile of an infectious disease; source of infection and insights into treatment directions; and personalized medicine status – both current disease state and susceptibility to future disease. According to a recent report in Genetic Engineering & Biotechnology News, Scientia Advisors estimates the next-generation sequencing market could reach $1.5 billion in sales by 2014, with a broader picture putting that figure closer to $3.6 billion.

Ten years ago, the Trugene HIV-1 Genotyping Assay, the first DNA sequencing-based test for HIV to be cleared by FDA, was launched to a worldwide market. This laid the foundation for Siemens to become a leader in infectious disease testing solutions that employ DNA sequencing technology. Since then, Trugene has become one of the market's leading DNA sequencing tests for infectious disease testing. By making its Trugene test compatible with Illumina's MiSeq analyzer, Siemens expects to be well positioned to help even more clinical laboratories leverage next-generation sequencing for their infectious disease testing with the fastest turnaround time and highest accuracy possible.

"Partnerships with global leaders like Siemens are a key element of our strategy to drive widespread adoption of MiSeq in the clinical setting," said Jay Flatley, CEO of Illumina. "Siemens has a long track record of success in developing regulated products for infectious disease testing, and we are excited to join them in taking next-generation sequencing to this important market."

-Richard Park

Ivdt insight blog Tags: Business News, Collaboration, Infectious Diseases, Siemens

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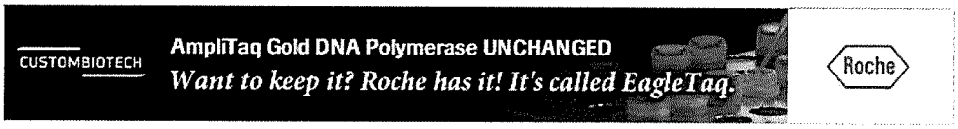

Exhibit 22

Illumina Solidifies Clinical Strategy with TruSight Products, Collaboration with Partners HealthCare

September 12, 2012

By Monica Heger

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Illumina this week made further inroads into the clinical market with the launch of disease-specific targeted sequencing products, diagnostic whole-genome sequencing on the HiSeq 2500, and a new collaboration with Partners HealthCare for clinical interpretation of sequencing data.

The company's disease-specific content sets, dubbed TruSight, are specific for autism, cardiomyopathy, inherited cancer, inherited diseases, and exome sequencing.

These products are the latest step in Illumina's ongoing strategy to capture a share of the nascent clinical sequencing market and shed some light on the direction that its Translational and Consumer Genomics business unit is taking.

Earlier this year, Matt Posard, general manager of the Translational and Consumer Genomics business unit at Illumina, told *Clinical Sequencing News* that the group was focused on enabling genomics-based healthcare and would seek to develop a physician's report as well as disease-focused panels that could be customized by clinical labs that wanted to launch them as laboratory-developed tests (*CSN 3/14/2012*).

The new products are "the realization of that plan," Posard said this week.

Illumina's other clinically focused unit, its Diagnostics business, has also been moving forward as it seeks to increase hires within its clinical and medical affairs group (*CSN 9/5/2012*).

The TruSight products are designed to be run on the MiSeq and to be interpreted using Partners Healthcare's GeneInsight Suite, a genome interpretation software package that is already registered with the US Food and Drug Administration as a Class I exempt medical device, Posard said.

"We identified very early on that an individual customer's ability to analyze and interpret sequencing data was a bottleneck in adoption with clinical research customers," Posard said. To address that bottleneck, Illumina considered various options, including building an interpretation tool itself, buying one, or partnering.

Posard said that after evaluating the landscape, the GeneInsight Suite by Partners HealthCare quickly "rose to the top." The software has been in the field for over seven years and a number of clinical labs already use it. The tool can also scale to evaluate both targeted panels and whole genomes.

It is compliant with CLIA and HIPAA and the fact that it is registered with the FDA could potentially be helpful as Illumina looks to bring its MiSeq system through FDA 510(k) clearance along with one or several of the TruSight assays, Posard said

"The company's intention is to take any or all of these products through the FDA based on clinical trial design and market interest in this research phase of the product's usage," he said.

Posard said that the company would be looking to get market feedback about the products before deciding which or when to take them through the FDA.

In this issue of Clinical Sequencing News

Because the TruSight assays are being sold as research-use-only products, Posard said that labs interested in using them for diagnostic purposes would have to validate them in a CLIA-approved setting.

Additionally, he said, the TruSight products have been designed so that "individual customers can augment the design, or content of the oligos, and create additional content if they wish, and therefore create a customized product that would satisfy the [laboratory-developed test] requirement" under CLIA.

The TruSight products are based on the Nextera "tagmentation" chemistry. Tim McDaniel, Illumina's director of scientific research, told *CSN* that the company chose to use the Nextera chemistry versus the TruSeq chemistry because it was much simpler and fast — requiring 90 minutes for library preparation. By comparison, the TruSeq kits require eight hours for library prep.

Illumina partnered with experts in the field to develop each of the TruSight assays.

The TruSight Autism assay was developed with Jonathan Pezsner at the Kennedy Krieger Institute and targets around 100 genes. TruSight Cancer targets germline mutations in around 94 genes associated with inherited forms of cancer and was developed with Nazneen Rahman at the Institute of Cancer Research in London. The assay includes the BRCA 1 and 2 genes.

TruSight Cardiomyopathy focuses on 46 genes and was developed with Heidi Rehm's group at Partners HealthCare's Laboratory for Molecular Medicine. Rehm's team had already been developing a cardiomyopathy test that originally used both next-gen and Sanger sequencing (*CSN 2/22/2012*).

The TruSight Inherited Disease assay was developed with Stephen Kingsmore at Children's Mercy Hospital. His team had been working on its own inherited disease panel — comprising the same 552 genes that are now in the TruSight assay — originally as part of the National Center for Genome Resources, but moved the test to Children's Mercy Hospital for the clinical launch.

Last year, Kingsmore's team began a validation study of the assay in a clinical trial of 1,000 known patient samples using the HiSeq 2000 and Agilent's SureSelect enrichment kit (*CSN 8/9/2011*)

And finally, Illumina's TruSight Exome assay targets 2,761 genes — all the genes that are known to be associated with clinical ailments or conditions as reported by the Human Genome Mutation Database.

Additionally, Illumina has expanded its diagnostic sequencing services and now offers whole-genome sequencing on the HiSeq 2500 in its CLIA-certified laboratory. The service will require a physician's prescription and will initially be available on a limited basis. Illumina will evaluate cases submitted for sequencing on the 2500 to prioritize which patients will most benefit from a faster turnaround.

Posard said that Illumina does not intend to offer its TruSight assays as a diagnostic service, because that would compete directly with its customers.

Monica Heger tracks trends in next-generation sequencing for research and clinical applications for GenomeWeb's *In Sequence* and *Clinical Sequencing News*. E-mail Monica Heger or follow her GenomeWeb Twitter accounts at @InSequence and @ClinSeqNews.

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- No. Negative results are rarely published.
- No. I'm surprised it's not higher.
- I'm of two minds.

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April 25, 2012 / Clinical Sequencing News

Science

Members of the International Genomics Alzheimer's Project consortium brought together data for tens of thousands of individuals with or without late-onset Alzheimer's disease, and through GWAS and meta-analyses of that data tracked down 19 risk loci for the neurodegenerative condition, including 11 not found previously. The new candidate genes were detected in amyloid and tau protein-related pathways and pathways involved in immune response, inflammation, cellular migration and transport processes.

Business

Illumina signed a definitive agreement to acquire clinical software firm NextBio, which provides platforms to aggregate and analyze large amounts of phenotypic and genomic data for research and clinical applications. Illumina plans to combine its BaseSpace cloud computing environment for next-generation sequencing data with NextBio's platform for integrating patient data. Illumina will integrate NextBio into its Enterprise Informatics business and will retain NextBio Co-founder Ilya Kupershmidt and CTO Satnam Alag.

Funding

The Carlos Slim Foundation has pledged $74 million to fund the second phase of a genomics-focused collaboration between the Broad Institute, Mexico's National Institute of Genomic Medicine, and the Carlos Slim Health Institute. In this second phase of the collaboration, researchers plan to develop diagnostic tools for breast cancer and diabetes, complete their genetic analyses of these diseases, develop therapeutic roadmaps to guide the development of new treatments, and launch "a full-scale effort" to target the MCKD1 gene.

GenomeWebinars

Is Next Generation Sequencing Accelerating Your Cancer Drug Development and Clinical Trial Programs?

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This webinar was recorded Oct. 3.

GenomeWeb and Asuragen invite you to view a webinar discussing the use of next-generation sequencing to illuminate druggable targets in oncology while addressing the limitations in DNA quality and yield from formalin-fixed specimens.

Register here to view the playback or download the recording.

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Exhibit 25

U.S. Reaches Deal on Airlines' Merger Lawsuit

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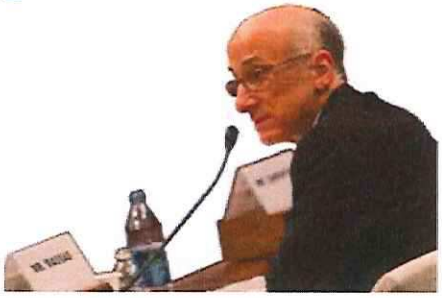

Obama to Tap Treasury Official for C.F.T.C.

24

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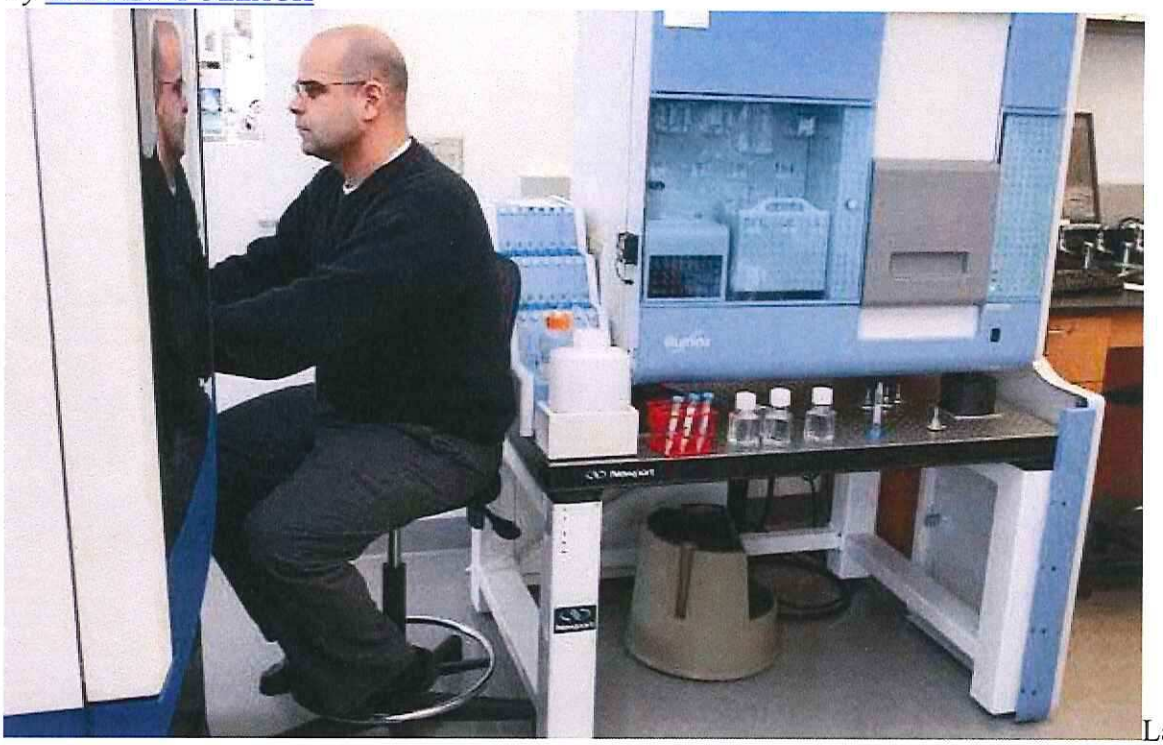
Illumina Buys Maker of Down Syndrome Test

By ANDREW POLLACK



Larry Downing/ReutersIllumina's technology provides genetic analysis at a laboratory in Rockville, Md.

SAN FRANCISCO — Illumina, the leading manufacturer of DNA sequencing machines, said on Monday that it would buy the privately held Verinata Health for at least $350 million in cash to expand its push into the diagnostics business.

Verinata, based in Redwood City, Calif., sells a test that uses a blood sample from a pregnant woman to determine whether her baby will have Down syndrome or some other chromosomal abnormalities.

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Such tests, which have been available for only about a year, have been rapidly catching on as an alternative, in some situations, to invasive tests like amniocentesis that carry a slight risk of inducing a miscarriage.

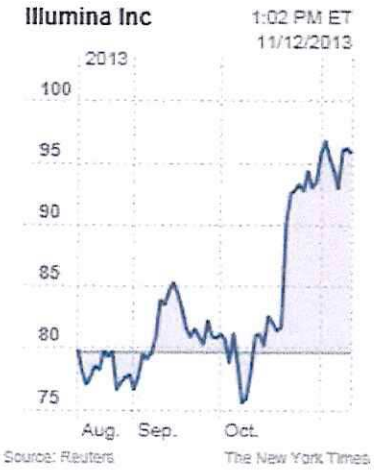
Illumina's stock fell almost 8 percent in early trading on Monday, though that was probably more because of reports that Illumina itself would not be acquired by Roche Holding, the Swiss pharmaceutical and diagnostics company. Illumina shares closed at $50.88, down 7 percent.

Roche's chairman, Franz B. Humer, was quoted on Sunday by a Swiss newspaper, Sonntags Zeitung, as saying a deal was off because Illumina wanted too high a price.

In April, Roche had dropped a hostile bid for Illumina, valued at $51 a share, or about $6.7 billion.

But a different Swiss newspaper had reported in December that Roche was trying to buy Illumina again, this time for $66 a share. Neither Illumina nor Roche commented publicly on that report.

Both Roche's interest in Illumina and Illumina's acquisition of Verinata suggest that DNA sequencing, which until now has mainly been used for research studies like the Human Genome Project, is moving toward being used for medical diagnosis.



Illumina wants to be more than a seller of sequencing machines. It already offers a service sequencing the genomes of people to help diagnose rare diseases or figure out the best treatment for a cancer. In September, it bought BlueGnome, a British company that uses sequencing to screen for various genetic abnormalities.

"The agreement with Verinata demonstrates Illumina's commitment to developing innovative diagnostic solutions and providing our partners with the most advanced technologies for improved patient care," Jay T. Flatley, chief executive of Illumina, said in a statement.

Verinata's test, called Verifi, uses sequencing to analyze fragments of fetal DNA that can be found in a pregnant women's blood. That allows for detection of Down syndrome, in which a person has three copies of chromosome 21 instead of the usual two.

Such noninvasive tests for Down syndrome appear to be catching on rapidly. Verinata, however, is believed to substantially lag the market leader, Sequenom, in market share.

Sequenom, a publicly traded company, introduced the first noninvasive Down syndrome test in October 2011.

It said on Sunday that it had performed 60,000 of its MaterniT21 Plus tests in 2012, and by the end of the year was operating at an annualized run rate of 120,000 tests.

Others selling or developing such tests include Ariosa Diagnostics and Natera. The companies are involved in various patent lawsuits against one another. They are also broadening their tests to detect chromosomal abnormalities beyond Down syndrome, including those linked to abnormalities in the sex chromosomes.

Some of these other companies use Illumina sequencers to perform their tests. It is possible they may now become more reluctant to rely on machines made by a company that is a competitor.

Illumina said there were about 500,000 high-risk pregnancies a year in the United States that would be candidates for a noninvasive prenatal test. It said the potential market for such tests would be more than $600 million in 2013.

Verinata said on its Web site that it would continue to operate as a subsidiary of Illumina. Beyond the initial payment of $350 million, Verinata shareholders will be eligible to receive up to an additional $100 million in milestone payments through 2015.

Illumina said the deal would dilute its earnings per share by 20 cents in 2013 but add to them in 2014.

Bank of America Merrill Lynch and Covington & Burling advised Illumina on the deal.

Illumina made its announcement on the eve of the J. P. Morgan Healthcare Conference in San Francisco, an annual Wall Street and medical industry gathering at which numerous companies make announcements.

A version of this article appears in print on 01/08/2013, on page B3 of the NewYork edition with the headline: In Diagnostics Push, Illumina to Buy Maker of Down Syndrome Test.

Tags

DNA (Deoxyribonucleic Acid), Down Syndrome, Genetics and Heredity, Illumina Inc, Mergers, Acquisitions and Divestitures, Roche Holding A G, Tests (Medical), Verinata Health Inc

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Kirkland & Ellis said on Monday that it had hired Sean Rodgers, a mergers and acquisitions lawyer at Simpson Thacher & Bartlett, as a partner.

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Vote of Confidence in Mexico's Version of Amazon.com

The Mexican venture capital firm Latin Idea Ventures said it had made its first investment in an e-commerce company, Linio, a start-up that sells a wide array of products in Latin America.

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Sunday was a bad day for Fantex, the fledgling company promoting initial public offerings of National Football League stars, as its first two prospects were sidelined.

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Had the company sold its 70 million shares at $45.10 instead of $26, it might have raised $3.16 billion instead $1.82 billion.

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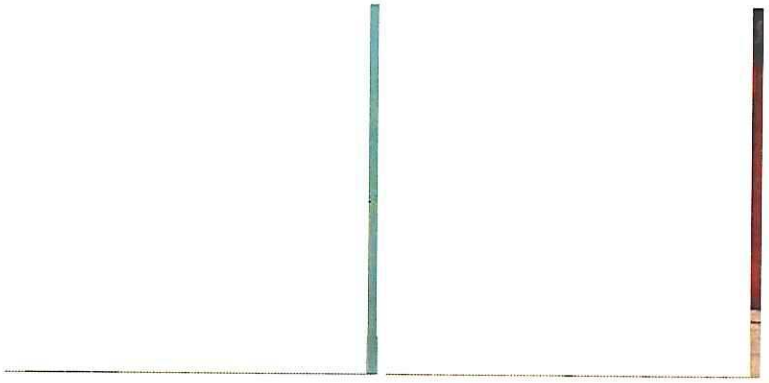

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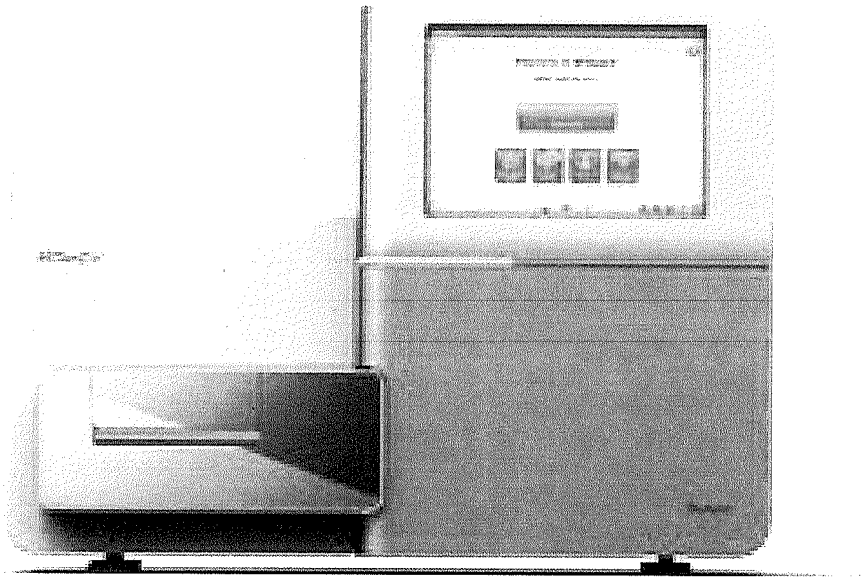
Exhibit 34

BIOTECH

Illumina scores medical sequencing breakthrough

San Diego genome giant's gear first to be used for regular patient care

Bradley J. Fikes • U-T 08:05p.m. Nov 26, 2013



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(/photos/2013/nov
/20/1158039/)

Gregory F. Heath, Ph.D., Illumina Senior Vice President & General Manager, Diagnostics. Courtesy photo

Increasingly powerful DNA sequencers have uncovered a mountain of data on how changes in the human genome affect health and disease. These "next-generation" instruments have greatly speeded up genome sequencing, while bringing down the price from hundreds of millions to as little as $5,000.

But few patients have benefited from this powerful technology, because the sequencers haven't been approved for clinical applications. They are used in research laboratories and only in rare circumstances have been used to guide treatment.

Thanks to a historic decision by the U.S. Food and Drug Administration, that knowledge will now be brought directly to patients as part of normal medical care. And the first company to do so will be Illumina, the San Diego-based DNA sequencing giant.

Illumina received FDA approval last week to sell its new next-generation sequencer for clinical use. The FDA also approved two tests for cystic fibrosis to be performed on the machine, and perhaps most significantly, a kit to help clinical laboratories develop their own tests for the sequencer. European regulators gave approval about two months ago for the instrument, called the MiSeqDx.

Using the kit, laboratories can develop innumerable tests, said Greg Heath, Illumina's senior vice president and general manager of diagnostics.

"The uses are limited only by their creativity," Heath said.

The approval's significance was highlighted by an article in the New England Journal of Medicine. The authors: Francis Collins, director of the National Institutes of Health, and Margaret Hamburg, FDA commissioner.

"Clinicians can selectively look for an almost unlimited number of genetic changes that may be of medical significance," Collins and Hamburg wrote. "Access to these data opens the door for the transformation of research, clinical care and patient engagement."

EXPANDING FIELD

Next-generation is a collective term for technologies that harness microelectronics to analyze genomes in a massively parallel fashion. The instruments use miniaturized devices to study the genome at many places at once. This not only speeds up analysis, it lowers prices, in part because the cost of the instruments can be amortized much more quickly.

Lower price means more patients can benefit. Increased speed means genome scanning can be performed in an increasingly routine fashion. The combination means that research knowledge can become part of daily patient care.

And for Illumina, more sales of sequencers means more revenue. As confidence in next-generation sequencing's future has grown, so has Illumina's market value, which now exceeds $12 billion.

Shares of Illumina closed Tuesday at $98.29. On Monday, shares briefly exceeded $100 apiece.

Illumina's market value was less than half that in January 2012, when Swiss drug giant Roche offered to buy Illumina for $44.50 per share, or about $5.7 billion. On Dec. 21, the day before rumors about the potential purchase surfaced, Illumina shares were trading for $27.17.

Illumina turned down that offer, and a sweetened offer of $51 per share, as far below the company's true value.

One of the few ways Illumina's research technology has reached the public is through the gene-testing company 23andMe, which uses Illumina sequencers. But that use was halted Monday when the FDA ordered the Mountain View company to stop selling its tests. The company said the tests are meant for guidance, not for medical diagnosis. But the FDA said 23andMe needs to prove clinical accuracy. Approval of Illumina's new clinical-grade sequencer offers another path to the market, with formal regulatory blessing.

The approval gives Illumina increased access to a vast and growing clinical diagnostics market, said John McCamant, editor of the Berkeley-based Medical Technology Stock Letter.

NATURAL COMPLEMENT

Clinical diagnostics are a natural complement to drugs, McCamant said. More accurate diagnostics is key to applying what's often called personalized medicine, in which treatments are matched with an individual's biological makeup.

Illumina's cystic fibrosis tests should pair nicely with a new drug being tested by Vertex Pharmaceuticals, McCamant said. There is no cure for cystic fibrosis, and no drug treats the underlying cause, mutations that cause thick mucus to build up in the lungs.

Illumina and its Carlsbad-based rival Life Technologies dominate next-generation sequencing, with a number of smaller competitors vying to leapfrog with other technologies.

Illumina, as its name implies, uses light-based methods to detect DNA sequences. An alternative that has received much attention in recent years directly detects sequences on a computer chip.

The technology was developed by Ion Torrent, now a division of Life Technologies. It is the basis of Life Tech's Personal Genome Machine and the newer Ion Proton next-generation sequencer.

However, the technology needs further development to compete with Illumina, according to a Nov. 11 analyst report from the research and investment banking company Leerink Swann. The Ion Proton device produces three times the error rate of the Personal Genome Machine, according to the report. Life Tech is working on Ion Proton improvements.

A smaller competitor, Oxford Nanopore, sequences DNA and proteins by sending them through an extremely small opening called a nanopore, and measuring changes in how electricity is transmitted as each letter, or base pair, is passed through. Illumina has long had a relationship with Oxford Nanopore, but on Nov. 15 Oxford said Illumina sold its 13.5 percent equity stake to other investors.

Other competitors include Complete Genomics, based in Mountain View; and Pacific Biosciences of Menlo Park.

GENE TO GENOME

Genetic diagnostics began when Linus Pauling discovered a mutation that causes sickle-cell anemia and in the process

described how to think of disease in a new way. Pauling co-wrote a paper on the discovery published in Science in 1949. Its title: "Sickle Cell Anemia, a Molecular Disease."

But the original technology was slow, requiring tedious work to find a disease-causing mutation in just one gene. Exploring the entire 3 billion letters of the human genome was unthinkable. And since genes make up only a small percentage of the genome, scientists focused on that portion, assuming most of the rest had no clinical significance.

Next-generation sequencing, pioneered in the late 1990s, changed that view. It was the product of competition between a government-led consortium and a private effort by Celera Genomics, headed by gene pioneer J. Craig Venter. The competition accelerated efforts on both sides, resulting in the draft of the first human genome, announced in June 2000.

Since then, the story of sequencing has been one of speed, lowered costs and discoveries in hitherto unknown areas. In recent years, the trend has surpassed Moore's Law, the famous statement of Intel founder Gordon Moore that predicted an exponential increase in the number of transistors on semiconductor chips, with a lowered cost.

This newfound ability to plumb the genome at will opens up possibilities that weren't practical before. Already, the genomes of numerous individuals have been sequenced to determine which variants are associated with physical traits. This is called a genome-wide association study. Its power is that GWAS can find variants in any part of the genome, not just in preselected genes.

Cancer will be one of the biggest applications of clinical next-generation sequencing, Heath said. Cancer cells are characterized by unstable genomes that mutate frequently. Some of these mutations fall into predictable patterns that "drive" cancer development. Next-generation sequencing allows frequent sequencing of a patient's cancer to track its progress.

Collins and Hamburg discussed this use in their article in the New England Journal of Medicine. "For instance, lung adenocarcinoma can now be divided into subtypes with unique genomic fingerprints associated with different outcomes and different responses to particular therapies," they wrote. "More broadly, recent work from the Cancer Genome Atlas demonstrates that the tissue of origin of a particular cancer may be much less relevant to prognosis and therapy than the array of causative mutations."

Moreover, next-generation sequencers routinely uncover previously unsuspected relationships between diseases and mutations in the great majority of the genome that has no genes. Much of these "non-coding" stretches of DNA have no identifiable function, but that proportion is less than originally thought.

Last year, a massive genome study called ENCODE used Illumina sequencers to determine that at least 20 percent of the human genome is functional. It set an upper limit of 80 percent of the genome that shows biochemical activity that may be functional. The actual number, which lies in between the two, will need more research to determine. That means more work for the researchers — and more business for Illumina.

Company wins grant for a better condom

(/news/2013/nov/26/gates-foundation-award-apex/)

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Exhibit 201

illumina®

Illumina, Inc.

Quick Facts

Website: www.illumina.com
Ticker symbol: ILMN
Headquarters: San Diego, California, USA
Number of employees: 2,100+ globally
2010 revenue: $902.7 Million USD

Commercial Offices

- San Diego, CA
- Hayward, CA
- Cambridge, UK
- Beijing, China
- Tokyo, Japan
- Singapore
- Melbourne, Australia
- Sao Paulo, Brazil

Illumina Values

- Innovation is in our DNA
- We are relentless in the creation of great products
- We move fast and embrace change
- Deep collaboration allows us to compete in ways others cannot
- We are open—physically and philosophically

Illumina Management Team

Jay T. Flatley
President and CEO

Christian Henry
SVP, CFO, and GM, Life Sciences

Tristan B. Orpin
SVP and Chief Commercial Officer

Christian G. Cabou
SVP and General Counsel

Gregory F. Heath, Ph.D.
SVP and GM, Diagnostics

Mostafa Ronaghi, Ph.D.
SVP and Chief Technology Officer

Nicholas J. Naclerio, Ph.D.
SVP, Corporate Development

Kevin Harley
VP, Human Resources

About Illumina

Illumina is a leading developer, manufacturer, and marketer of life science tools and integrated systems for large-scale analysis of genetic variation and function. These systems are enabling studies that were not even imaginable just a few years ago, and moving us closer to the realization of personalized medicine. With rapid advances in technology taking place, it is mission-critical to offer solutions that are not only innovative, but flexible, and scalable, with industry-leading support and service. We strive to meet this challenge by placing a high value on collaborative interactions, rapid delivery of solutions, and meeting the needs of our customers.

Our customers include a broad range of academic, government, pharmaceutical, biotechnology, and other leading institutions around the globe.

Illumina's Vision

Illumina is a global company with a vision to be the leading provider of integrated solutions that advance the understanding of genetics and health. Our goal is to improve human health by enabling our customers to accelerate the collection, analysis, and application of biological information.

Leading-Edge Product and Services

Illumina has developed a comprehensive line of products that address the scale of experimentation and breadth of functional analysis to advance disease research, drug development, and the development of molecular tests. Our broad portfolio of leading-edge sequencing and array-based solutions address a range of genomic complexity and throughputs, enabling researchers to select the best solution for their scientific challenge.

Instruments

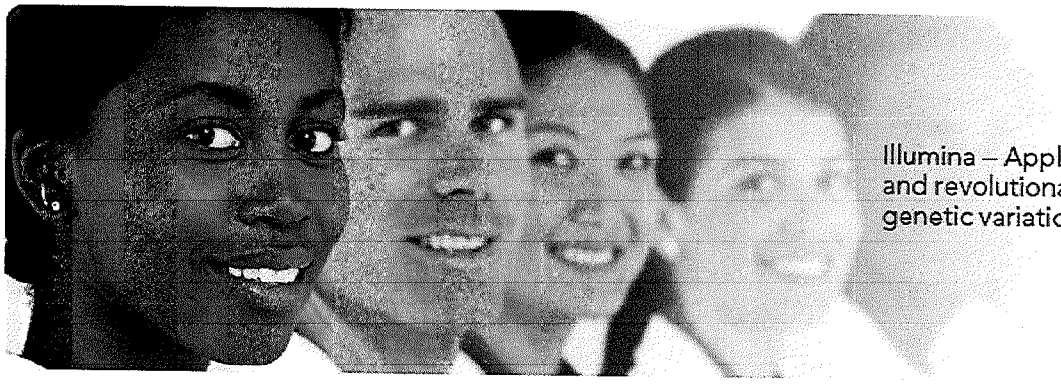
- HiSeq® systems
- Genome Analyzer$_{IIx}$
- MiSeq® system
- HiScanSQ™ system
- BeadXpress® Reader
- Eco™ Real-Time PCR system

Assays

- Sequencing by synthesis chemistry
- Infinium® genotyping and methylation assays
- GoldenGate® genotyping assay
- VeraCode® GoldenGate, methylation, gene expression, and protein analysis assays

Illumina, Inc. • 5200 Research Place, San Diego, CA 92122 USA • 1.800.809.4566 toll-free • 1.858.202.4566 tel • illumina.com

Company



Illumina – Applying innovative technologies and revolutionary assays to the analysis of genetic variation and function

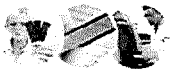
About Us

Learn how Illumina applies innovative technologies to the analysis of genetic variation and function.

Careers

Do exciting and challenging work and get a chance to change healthcare as we know it.

Newsroom



Read the latest news, find media contacts, and other related information.

Investors

Get stock information and financial reports for Illumina.

About Us

At Illumina, we apply innovative technologies for studying genetic variation and function, making studies possible that were not even imaginable just a few years ago. These revolutionary tools for DNA, RNA, and protein analysis are enabling rapid advances in disease research, drug development, and the development of molecular tests in the clinic.

Overview **Applications** **History**

Applications

Our core technologies, chemistries, systems, and software support the following applications:

- Sequencing
- SNP Genotyping and CNV Analysis
- Gene Regulation and

Core Technologies

- BeadArray Technology
- Sequencing Technology
- VeraCode Technology
- Oligator Technology
- Assay Technology

Cytogenetics
Cancer
Genomics

PCR Support
Customer Service
Training

Innovative technologies
At Illumina, our goal is to apply innovative technologies and revolutionary assays to the analysis of genetic variation and function, making studies possible that were not even imaginable just a few years ago. These studies will help make the realization of personalized medicine possible. With such rapid advances in technology taking place, it is mission critical to have solutions that are not only innovative, but flexible, scalable, and complete with industry-leading support and service. As a global company that places high value on collaborative interactions, rapid delivery of solutions, and prioritizing the needs of its customers, we strive to meet this challenge. Illumina's innovative, array-based solutions for DNA, RNA, and protein analysis serve as tools for disease research, drug development, and the development of molecular tests in the clinic.

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See our corporate overview video

Leading-edge products and services
Illumina has developed a comprehensive line of products that address the scale of experimentation and the breadth of functional analysis required to achieve the goals of molecular medicine. Our offering includes leading-edge solutions for:

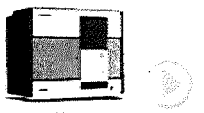
- SNP genotyping
- Copy number variation
- DNA methylation studies
- Gene expression profiling
- Low-multiplex analysis of DNA, RNA, and protein

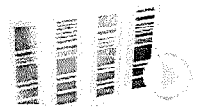
Our products and services are used by a broad range of academic, government, pharmaceutical, biotechnology, and other leading institutions around the globe.

A collaborative approach
In concert with prospective customers and partners, Illumina takes a highly collaborative approach to business relationships. We're good listeners, value feedback, and believe in working together. Illumina is committed to providing our customers with world-class solutions, service, and support throughout their relationship with us to maximize their scientific success.

Building the illumina community
Staffed with a cohesive mix of high-performing scientists, engineers, managers, and support staff, Illumina is committed to building a team that delivers high-quality products and industry-leading service to the marketplace. Every employee is a critical part of the growing Illumina Community. Through our actions we strive to invite everyone associated with our company to become a part of this community. This includes customers, collaborators, suppliers, and industry colleagues.

See our corporate overview video


Sequencing Video: The Genome Analyzer


VeraCode Video: Technology Overview

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About us

Management Team

History

Vision

Technology

Illumina Fact Sheet

Vision

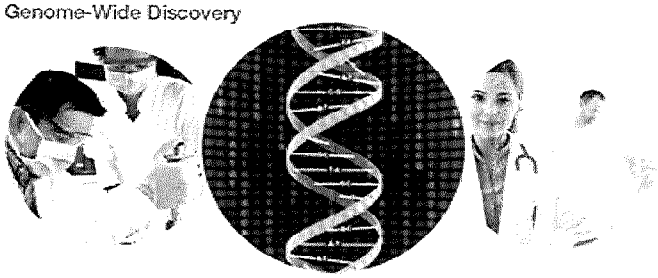
To be the leading provider of integrated solutions that advance the understanding of genetics and health

Purpose

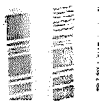
To improve human health by enabling our customers to accelerate the collection, analysis and application of biological information

Sequencing \
Genome Ana

From Genome-Wide Discovery



To Targeted Validation and Beyond...



VeraCode Vi
Technology C

Life Sciences | **Personal Sequencing** | **Diagnostics**

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Applications

Sequencing
GWAS
SNP Genotyping & CNV Analysis
Gene Regulation & Epigenetic Analysis
Gene Expression Analysis
Protein Analysis
Real-Time PCR
Agrigenomics
Cytogenetics
Cancer Genomics

Systems

HiSeq Systems
Genome Analyzer IIx
MiSeq
HiScanSQ
iScan
BeadXpress
Eco Real-Time PCR System
Software
BaseSpace

Services

Genome Network
FastTrack Services
CSPro
Core Labs
Service Partnerships
Illumina Financial Solutions
Illumina Connect

Science

Publications
Researchers
Technology
iCommunity
Webinars

Support

Product Documentation
Product Literature
Software
BaseSpace
FAQs
DesignStudio
Assay Design Tool
Product Files
Eco Real-Time PCR Support
Customer Service
Training

Company

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Investor Relat
Privacy
Legal
California Transparency
Supply Chain

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ILLUM-0771

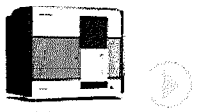
Technology

Our core technologies, assay chemistries, systems, and software support the following key applications:

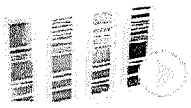
- **SNP Genotyping**: A method of determining variation in genetic sequences
- **Gene Expression Profiling**: The analysis of which genes are active in a particular cell or group of cells
- **Epigenetics**: The process of profiling changes in genetic sequence function
- **Proteomics**: The process of determining which proteins are present in cells and how they interact

Our core technologies include:

- **BeadArray Technology**: A fundamentally different approach to high-density microarrays
- **Sequencing Technology**: A method for highly economical, scalable sequencing applications with unparalleled data density
- **VeraCode Technology**: Enabling a broad range of multiplexing options for RNA, DNA and protein applications
- **Oligator Technology**: World-class oligo manufacturing and quality fueling the Illumina product offering
- **Assay Technology**: Robust assay chemistries that provide industry-leading performance, specificity, and results
- **Real-Time PCR Technology**: A revolutionary approach to delivering superior performance for the most demanding qPCR applications at a fraction of the price.



Sequencing Video: The Genome Analyzer



VeraCode Video: Technology Overview

ILLUM-0772

Innovative technologies
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Illumina®

Account Login

Returning Customer

* Username/Email:

* Password:

Forgot your password?

By clicking on the "Login" button you indicate that you agree with our Terms and Conditions.

LOGIN

New Customer

Why register?

- Place orders and track order status
- View and redeem quotes
- Design and order Illumina custom products
- Maintain favorite lists
- Manage subscriptions
- Register for upcoming webinars and view technical pulls

REGISTER

Innovative technologies

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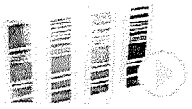
ILLUM-0774

History

Illumina was founded in April of 1998 by David Walt, Ph.D., CW Group (Larry Bock), John Stuelpnagel, D.V.M., Anthony Czarnik, Ph.D., and Mark Chee, Ph.D. While working with CW Group, a venture capital firm, Larry and John uncovered what would become Illumina's BeadArray technology at Tufts University and negotiated an exclusive license to that technology. Headquartered in San Diego, California, Illumina completed its initial public offering in July, 2000.

Sequencing Video: The Genome Analyzer

Illumina began offering SNP genotyping services in 2001 and launched its first system, the Illumina BeadLab, in 2002, using GoldenGate Genotyping technology. The company acquired Solexa in 2006 and soon after launched the Genome Analyzer, the first of many Illumina sequencing systems based on the sequencing by synthesis technology.



VeraCode Video: Technology Overview

Illumina currently offers microarray-based products and services for an expanding range of genetic analysis sequencing, including SNP genotyping, gene expression, and protein analysis. Illumina's technologies are used by a broad range of academic, government, pharmaceutical, biotechnology, and other leading institutions around the globe.

Illumina timeline - see all dates

4/1/1998: Illumina founded
Illumina founded by David Walt, Ph.D., of Tufts University (inventor of BeadArray technology), Larry Bock of the CW Group, John Stuelpnagel, D.V.M., Anthony Czarnik, Ph.D., and Mark Chee, Ph.D.

11/1/1998: First substantial funding
Illumina begins with a staff of seven, secures a 10,000 sq. ft. facility in San Diego, CA, and begins developing core technology and intellectual property portfolio with initial funding of $8.6 million.

10/1/1999: Jay Flatley appointed CEO
Jay Flatley joins Illumina as President and Chief Executive Officer.

7/1/2000: Initial public offering
Illumina's IPO raises over $100 million.

Early 2001: FastTrack Genotyping Services launched
Illumina offers genotyping services using its production-scale systems and GoldenGate Genotyping Technology. The first services contract with GlaxoSmithKline comes through in May 2001.

Mid-2002: BeadLab system launched
Illumina's turnkey, fully-integrated production SNP genotyping system was introduced as a commercial solution for leading genotyping facilities around the world. More than 60% of the data for the International HapMap project Phase I was generated using this platform and the GoldenGate Assay.

9/1/2003: Gene Expression array launched
Illumina launches a second genetic analysis application, gene expression profiling. Illumina's gene expression arrays feature the world's first multi-sample chip formats and the industry's only 100% array QC.

Early 2004: BeadStation benchtop system launched
Illumina technology becomes available to core labs and researchers around the globe with the launch of the BeadStation system, a benchtop solution that runs both DNA and RNA analysis applications. The Illumina BeadStation brings scalability and flexibility to genetic analysis researchers through its modular format and integrated options.

1/1/2004: DASL Assay launched
Illumina launches the DASL Assay, a powerful new approach for generating gene expression profiles from partially degraded RNA samples such as those found in formalin-fixed, paraffin-embedded samples (a common method of preserving samples from biopsies). An estimated 400 million FFPE samples exist in the U.S. for cancer alone.

2/1/2005: CyVera acquisition
Illumina acquires CyVera Corporation, the developer of VeraCode Technology, a complementary, low-multiplex technology that is ideal for target validation and molecular test development.

2/5/2005: Whole-genome Gene Expression array launched
Illumina launches the world's first multi-sample, whole-genome expression microarrays. The Human-6 and HumanRef-8 BeadChips deliver industry-leading quality and pricing.

Mid-2005: Infinium whole-genome genotyping launched
Illumina launches the Infinium Assay, a revolutionary genotyping assay that provides intelligent SNP selection and unlimited access to the genome. The first Infinium product, the Human-1 Genotyping BeadChip, includes over 100,000 markers on a single BeadChip.

9/1/2005: Mouse whole-genome expression array launched
Illumina introduces the world's first whole-genome expression arrays for mouse, an important model organism.

1/1/2006: Infinium HumanHap300 BeadChip launched
Illumina announces the availability of the HumanHap300 Genotyping BeadChip, which leverages tag SNP content to deliver over 300,000 markers on a single microarray.

3/1/2006: Expansion of GoldenGate panels offered
Illumina expands its standard panel offering for GoldenGate genotyping with three new panels for the MHC region, cancer, and sample quality assessment.

3/1/2006: Infinium HumanHap550 BeadChip launched
Illumina announces the next BeadChip in its Infinium whole-genome genotyping offering, the HumanHap550 BeadChip, with over 550,000 markers on a single microarray.

6/1/2006: Infinium HumanHap550+ and iSelect products launched
Illumina announces custom content for Infinium genotyping with the HumanHap550+ and iSelect BeadChip.

6/1/2006: Infinium HumanHap650Y BeadChip launched
Illumina announces the third BeadChip in its Infinium whole-genome genotyping offering, the HumanHap650Y BeadChip, with over 650,000 markers on a single microarray and enriched content for African

populations.

8/1/2006: Certified Service Provider (CSPro) program launched
Illumina announces a program certifying service labs around the world to provide genotyping and gene expression services using its BeadArray technology.

9/21/2006: Rat whole-genome Gene Expression array launched
Illumina introduces the world's first whole-genome expression arrays for rat, an important model organism.

11/1/2006: Solexa acquisition
Illumina announces the acquisition of Solexa, the developer of a genomic-scale sequencing technology. Combined, illumina now offers the ultimate tool set for genetic analysis.

1/10/2007: High-throughput DNA Methylation Cancer Panel launched
Illumina launched the GoldenGate Methylation Cancer Panel, capable of surveying up to 1,536 methylation sites across 96 samples simultaneously,

1/10/2007: Infinium Human1M and Human450S BeadChips launched
Combining an unprecedented level of content for both whole-genome and copy number variation analysis, the Human1M and Human450S BeadChips include additional unique, high-value genomic regions of interest - all on a single microarray chip.

1/29/2007: Illumina named fastest growing high-tech co. by Forbes
Illumina posted its first profitable 12-month period in five years, making its way to #1 on Forbes' fastest growing high-tech list.

3/12/2007: Infinium HumanCNV370-Duo BeadChip launched
Developed in collaboration with deCODE genetics, the HumanCNV370-Duo, is the world's first microarray designed to specifically target novel regions of the genome that show copy number variation.

3/21/2007: BeadXpress system launched
Utilizing uniquely inscribed digital microbeads, the VeraCode technology provides high-quality data, broad multiplexing capability, and assay flexibility. Researchers can assay tens to hundreds of analytes in a single sample at one time.

4/16/2007: Custom DNA Methylation launched
Using the custom DNA methylation panels investigators now have the option to select their favorite genes or gene regions to cost-effectively survey up to 1,536 methylation sites of choice across 96 samples simultaneously.

5/1/2007: IlluminaConnect launched
IlluminaConnect is a bioinformatics software partnership program established to advance data integration and analysis. This program offers Illumina customers seamless access to third-party bioinformatics providers of advanced data analysis applications for processing Illumina array data.

6/11/2007: Industry first controls database offered
iControlDB is the first industry-hosted genotyping control repository available for researchers conducting case-control whole-genome association studies.

7/24/2007: Digital Gene Expression launched
New Digital Gene Expression (DGE) applications including small RNA and Gene Expresion profiling use Illumina's Genome Analyzer to generate genome-wide sequencing-based expression profiles of messenger and small RNA.

8/2/2007: Infinium HumanHap550-Duo BeadChip introduced
The HumanHap550-Duo BeadChip is the Company's fourth multi-sample DNA Analysis solution for genome-wide association studies. The HumanHap550-Duo BeadChip provides the same content as the HumanHap550 BeadChip but in a dual-sample format, resulting in significantly greater throughput and lower cost per sample.

9/6/2007: Infinium HumanLinkage-12 BeadChip introduced
The HumanLinkage-12 BeadChip is Illumina's fifth multi-sample Infinium BeadChip and the Company's first standard panel to take advantage of a twelve-sample format for linkage analysis.

10/22/2007: MicroRNA Assay using BeadArray technology launched
Priced at $95 per sample, the MicroRNA Assay for Gene Expression profiling is the only tool available to allow rapid and reproducible miRNA expression profiling at a price less than half that of other commercially available methods.

10/25/2007: Infinium DNA Methylation BeadChip launched
New DNA Methylation BeadChip assays 27,000 CpG sites per sample, covering more than 14,000 well-annotated genes with single CpG resolution.

1/4/2008: Illumina announces corporate reorganization
Illumina reorganized its operating structure to further leverage the synergies between its sequencing and genotyping businesses.

1/7/2008: High-density product line introduced
The Infinium HD Human1M-Duo (two samples/chip) and the Human610-Quad (four samples/chip) feature up to 2.3 million single nucleotide polymorphisms (SNPs) per BeadChip, doubling sample throughput and reducing DNA input requirements by as much as 70 percent.

1/15/2008: Infinium BovineSNP50 BeadChip released
The Infinium BovineSNP50 BeadChip is a 12-sample genotyping product featuring 54,000 SNPs for detecting genetic variation in any breed of cattle.

2/6/2008: Illumina sequences first African human genome
Illumina scientists sequenced the genome of an anonymous African male (Yoruba from Ibadan, Nigeria), using the Genome Analyzer. This achievement establishes the direct utility of Illumina's sequencing technology for accurately sequencing large and complex genomes

Gene Expression Analysis
Protein Analysis
Real-Time PCR
Agrigenomics
Cytogenetics
Cancer Genomics
BeadXpress
Eco Real-Time PCR System
Software
BaseSpace
Illumina Financial Solutions
Illumina Connect
DesignStudio
Assay Design Tool
Product Files
Eco Real-Time PCR Support
Customer Service
Training
Privacy
Legal
California Transparency in Supply Chain

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Applications / Sequencing / **DNA Sequencing**

DNA Sequencing

Transcriptome Analysis

Gene Regulation Analysis

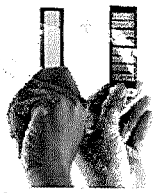
Illumina's sequencers powerfully combine the flexibility of single reads, short- and long-insert paired-end reads, enabling the broadest range of genomic applications. TruSeq sequencing chemistry supports this wide range of applications including whole-genome sequencing, targeted resequencing, *de novo* sequencing, amplicon sequencing, SNP discovery, identification of copy number variations, and chromosomal rearrangement. Nextera technology enables researchers to accelerate sample preparation and produce sequencing-ready libraries in less than 90 minutes.

Kits

- TruSeq DNA Sample Prep Kit
- TruSeq Exome Enrichment Kit
- TruSeq Custom Enrichment Kit
- TruSeq Custom Amplicon Kit
- Nextera DNA Sample Prep Kit

Applications

- Targeted Resequencing
- *De Novo* Sequencing
- Whole Human Genome Sequencing
- Sequencing Automation



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Applications / SNP Genotyping and CNV Analysis /
Whole-Genome Genotyping and Copy Number Variation Analysis

Since they were first developed in 2005, whole-genome genotyping (WGGT) arrays have become an important tool for discovering variants that contribute to human diseases and phenotypes. The two primary applications of this technology, genome-wide association studies (GWAS) and copy number variant (CNV) analysis, have helped researchers begin to unravel the complex genetic architecture behind diseases such as diabetes and Crohn's disease, and traits such as hair and eye color.

Illumina's WGGT Infinium BeadChips offer researchers the flexibility to genotype samples with hundreds of thousands to millions of markers that deliver dense genome-wide coverage with the most up-to-date content available from the scientific community. Markers on the BeadChips are strategically selected by Illumina scientists to provide maximum coverage of the genome for both association testing and copy number detection.

Keep up-to-date with recent discoveries by customizing Infinium iSelect HD BeadChips with Infinium Add-On Content. Whether it comes from publically available databases or new discoveries, allows researchers to combine existing marker sets with new, unique content on a single BeadChip, increasing efficiency and cost effectiveness in study design.

The Omni Family of Microarrays

The latest generation of Infinium WGGT products is The Omni Family of Microarrays. This flexible, complimentary family of microarrays represents a revolution in array design, delivering up to 5 million makers per sample and offering an unprecedented amount of customizability. Designed from next-generation sequencing data from international projects such as the 1000 Genomes Project, Omni microarrays deliver unrivaled coverage of the genome. Access to whole-genome sequencing data provides the most complete picture of the extent of variation, allowing Illumina scientists to select the most informative markers to provide superior power to detect trait- and disease-associated variants.

Learn More about the Omni Family of Microarrays

Omni Whole-Genome Arrays

BeadChip	Array Format	Markers per Sample
HumanOmni5-Quad	4	~ 4.3 million
HumanOmni2.5S	8	~ 2.5 million
HumanOmni2.5-8	8	~ 2.5 million
HumanOmni1S	8	~ 1.25 million
HumanOmni1-Quad	4	~ 1.1 million
HumanOmniExpress	12	~ 700,000
HumanCytoSNP-12	12	~ 300,000

Omni Semi-Custom Whole-Genome Arrays

BeadChip	Array Format	Markers per Sample

ILLUM-0782

BeadChip	Array Format	Markers per Sample
HumanOmni5-Quad+	4	~ 4.3 million (fixed) up to 500K (custom)
HumanOmni2.5S+	8	~2.5 million (fixed) up to 500K (custom)
HumanOmniExpress+	12	~700,000 (fixed) up to 200K (custom)

Innovative technologies
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ILLUM-0783

Applications / Gene Regulation and Epigenetic Analysis / **Small RNA Discovery and Analysis**

Small RNA Discovery and Analysis

Sequencing-Based Methylation Analysis

DNA-Protein Interaction Analysis (ChIP-Seq)

Array-Based Methylation Analysis

Custom Low- to Mid-plex Methylation Analysis

Small RNA sequencing is a powerful application for Illumina Sequencing, enabling the discovery and profiling of microRNAs and other non-coding RNA on any organism, without prior genome annotation. Using low RNA inputs, you can profile the differential expression of known microRNAs as well as detect novel microRNA targets and wide-ranging sequence variation or "iso-miRs" miRBase accessions. With unprecedented sensitivity and dynamic range, Illumina's industry-leading small RNA sequencing methods allow for the most accurate detection and quantification of rare small RNA sequences.

LEARN MORE

Fully Supported Small RNA Analysis Applications

- **TruSeq Small RNA Sample Prep Kit:** Illumina's latest small RNA sample prep kit, with 48-sample indexing, enabling economical and high-throughput small RNA discovery and profiling.
- **Small RNA Sample Prep:** Illumina's original small RNA sequencing sample prep kit providing the ability to prepare 8 libraries for small RNA/microRNA analysis.

Highlights

- **Multiplex Enabling Sample Prep:** Enable high-throughput miRNA profiling using up to 48 unique indexes for multiplexed sequencing.
- **Simple, Fast Workflow:** Rapid library construction allows for the fastest RNA-to-data solution for rapid analysis and publication.
- **Strand-Specific Sequence Data:** Retain the original strand orientation information of microRNAs and other small RNAs, including piwi-interacting RNAs.
- **Low Input Requirements:** Requires 1.0 µg or less of total RNA for analysis of precious samples with high sensitivity, detecting as low as a single copy per cell.
- **Superior Data:** Achieve the highest quality data with the most accurate sequence detection across greater than six orders of dynamic range.
- **Broad Application:** Use for other RNA sequencing methods, including CLIP-Seq, RIP-Seq, or the strand specific analysis of messenger RNA fragments.
- **Universal Platform:** Analyze any small RNA sample from any species without any prior knowledge of sequence of secondary structure.

Protein Analysis
Real-Time PCR
Agrigenomics
Cytogenetics
Cancer Genomics

Eco Real-Time PCR System
Software
BaseSpace

Solutions
Illumina Connect

Assay Design Tool
Product Files
Eco Real-Time PCR Support
Customer Service
Training

Privacy
Legal
California Transparency in Supply Chain

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Applications / Gene Expression Analysis /
Transcriptome Analysis

Transcriptome Analysis

Whole-Genome Gene Expression

FFPE Sample Analysis

RNA sequencing has revolutionized the exploration of gene expression. Advances in the sequencing workflow, from sample preparation through data analysis, enable rapid profiling and deep investigation of the transcriptome. With RNA sequencing, you can characterize all transcriptional activity, coding and non-coding, in any organism without a priori assumptions.

Illumina's unique combination of long and short reads, single and paired-end sequencing, strand specificity, and capacity for tens of millions to billions of reads per run allows you to

- annotate coding SNPs
- discover transcript isoforms
- identify regulatory RNAs
- characterize splice junctions
- determine the relative abundance of transcripts

With the greatest daily output available for any sequencing system, transcript profiles can be generated in a single day. RNA sequencing reads can be aligned across splice junctions to identify isoforms, novel transcripts and gene fusions. Identify and quantify both rare and common transcripts, with over six orders of magnitude of dynamic range. Reveal the hidden world of non-coding RNA architecture without prior information.

Fully Supported Transcriptome Analysis Applications

- **TruSeq RNA Sample Prep Kits:** Illumina's latest high-throughput sample kits, providing robust indexing and a flexible, integrated workflow solution for economical RNA sequencing for discovery and profiling.
- **mRNA-Seq:** Illumina's original RNA sequencing sample prep kit providing the ability to prepare 8 libraries for full transcriptome analysis.
- **TruSeq Small RNA Sample Prep Kit:** Illumina's latest small RNA sample prep kit, with 48-sample indexing, enabling economical and high-throughput small RNA discovery and profiling.
- **Small RNA Sample Prep:** Illumina's original small RNA sequencing sample prep kit providing the ability to prepare 8 libraries for small RNA/microRNA analysis.

LEARN MORE

Agrigenomics
Cytogenetics
Cancer Genomics
Software
BaseSpace
Eco Real-Time PCR Support
Customer Service
Training
California Transparency in Supply Chain

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Applications / Protein Analysis / **Protein Screening**

Protein Screening

VeraCode technology provides a simple and flexible solution for multiplexed protein assays. With VeraCode Carboxyl Bead Sets, any protein or peptide can be covalently attached to the highly stable microbead surface, enabling the development of standard "sandwich" immunoassays. The 48 unique Carboxyl bead types can be pooled in varying combinations to perform up to 48 immunoassays in a single reaction in a standard 96-well microplate.

Analytes can be labeled with standard fluorescent reporters such as phycoerythrin (R-PE), Cy3, Cy5, or AlexaFluor dyes. During analysis, the fluorescence and code inscription for each microbead are detected by the BeadXpress Reader.

It has been demonstrated that the BeadXpress Reader can detect protein concentrations as low as 10 pg/ml in a multiplexed VeraCode Carboxyl bead assay.

The VeraScan Software that comes with the BeadXpress Reader System provides users the flexibility they need to customize scanning protocols. Illumina's BeadStudio software provides users a forum for simple to complex data analysis that can be easily exported to third-party data analysis programs.

Learn more about Carboxyl Bead Sets.

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qPCR

Through the use of various fluorescent detection chemistries, Real-Time PCR (qPCR) enables the detection, amplification, and quantification of DNA sequences as a PCR reaction is proceeding. Unlike traditional PCR, samples are characterized at the point when amplification is first detected; as opposed to measuring the amount of product generated after PCR cycling is completed. This more precise and highly sensitive PCR method has applications in basic research and diagnostics, where it is used for gene expression and genotyping studies, and virus and pathogen detection.

Making qPCR Accessible

To achieve a higher level of detection, qPCR systems require powerful thermal and optical modules. For most qPCR systems, this translates into large instruments with price points to match. Making qPCR accessible to individual researchers, the compact Eco Real-Time PCR System packs loads of innovation into a small footprint that fits anywhere in the lab. A proprietary thermal system provides unrivaled temperature control and a sensitive optical system facilitates all four-color multiplex applications, enabling the system's ability to deliver the performance, data quality, and reproducibility of market-leading instruments at a fraction of the price. This revolutionary new system supports a range of demanding Real-Time PCR applications, including absolute quantification by standard curve, relative quantification using the ΔΔCq method with support for multiple reference gene normalization, allelic discrimination by end-point fluorescence, and gene scanning and genotyping by High Resolution Melt (HRM) curve analysis.

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Systems

Sequencing

HiSeq Systems
Any application. Any study. Any budget.

GET MORE INFO

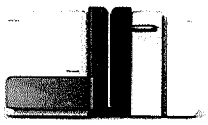
Genome Analyzer IIx
Most widely published and adopted next-gen system

GET A QUOTE

MiSeq
Prep, run, analyze in as little as 8 hours

GET A QUOTE

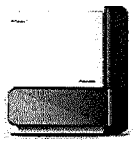
Sequencing + Arrays



HiScanSQ
High-throughput arrays with next-gen sequencing, one streamlined solution

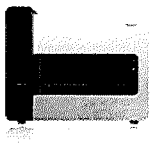
GET A QUOTE

Arrays - Low- to High-Plex



HiScan
Powerful array scanner; expandable to add next-gen sequencing

GET A QUOTE



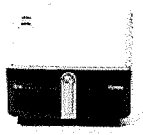
iScan
Dedicated array scanner; processes up to 96 multi-sample BeadChips per day

GET A QUOTE

BeadXpress
Broadest multiplexing range, assay versatility, superb data quality, and regulated device

GET A QUOTE

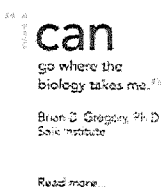
Real-Time PCR System



Eco Real-Time PCR System
High-performance thermal control & uniformity, open platform supporting variety of qPCR applications

ORDER NOW

Featured Researcher



Science Publications

- Next is now: new technologies for sequencing of genomes, transcriptomes, and beyond. Lister R et al. 2009.
- Genomic copy number variation, human health, and disease. Wain LV et al. 2009.

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Featured Partner

iGenix, inc.

iGenix, Inc. provides Illumina BeadXpress lab services for genotyping, copy number variation assessment, methylation and expression studies, maximizing your research efficiency and data accuracy.

News and Events

- Illumina Receives FDA 510(k) Clearance for Its BeadXpress(R) Multiplex Analysis System
- Illumina Now Shipping HiScan(TM)SQ Platform
- Illumina Announces Its First Full Coverage DNA Sequencing of a Named Family

Cytogenetics

Cancer Genomics

Customer Service

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Innovative technologies

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Services

Proven Illumina technology. Proven expertise.

The Illumina family of genetic analysis services.

Applications

Offering the widest breadth of services in the industry, all powered by Illumina systems.

Illumina Genome Network

Providing whole human genome sequencing services without compromise.

FastTrack Services

Genotyping services performed by Illumina expert teams.

CSPro

Certified Illumina partners delivering industry-leading data quality for genetic analysis applications.

Services for a Broad Range of Applications

Whether you need to analyze DNA, RNA, or proteins, Illumina and its partners can assist you by quickly and affordably completing your studies on industry-leading Illumina platforms. Leverage the knowledge of expert teams for a wide range of applications, from sequencing and genotyping to gene expression profiling and methylation analysis; each focused on delivering the high-quality data that will move your research forward.

Applications

- Sequencing
- Genotyping and CNV Analysis
- Gene Regulation and Epigenetic Analysis
- Gene Expression Profiling
- Protein Analysis Screening

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Director, Genotyping Facility, Duke University

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Learn from respected scientists who share their real-life experiences using Illumina technology.

Publications

At Illumina, we enjoy seeing how researchers are successfully using our products for a wide range of genetic analysis applications. We are proud to share this list of publications from the growing community of Illumina customers, collaborators, and internal scientists. If we missed one, please send the citation to publications@illumina.com.

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Population resequencing reveals local adaptation of Arabidopsis lyrata to serpentine soils Ecological adaptation on a genetic level is demonstrated by sequencing three candidate loci in Arabidopsis lyrata using the Illumina Genome Analyzer. More...

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- DNA Arrays
- RNA Arrays

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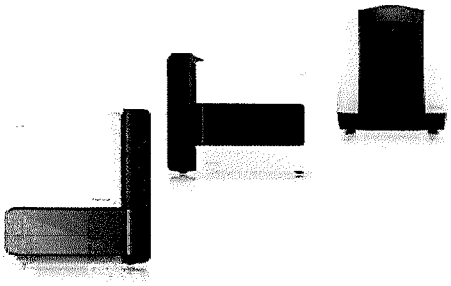
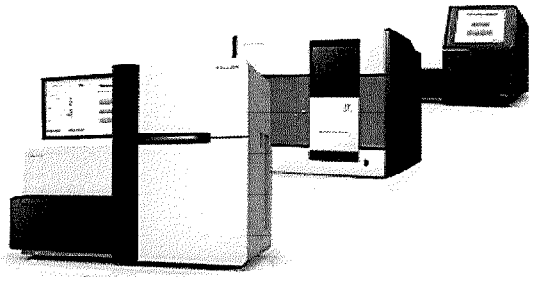
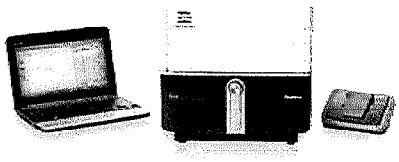
Support







Array

Get support for Illumina's BeadChips, scanners, and software.

VIEW SUPPORT

Sequencing

Get support for Illumina sequencing systems, kits, and software.

VIEW SUPPORT

Real-Time PCR

Get support for real-time PCR on Illumina's Eco system

VIEW SUPPORT

Customer Solutions

Illumina's Customer Solutions Team is dedicated to providing you with the resources you need to support your research. We strive to continuously exceed your expectations, so that you can maximize the impact of Illumina technology in your lab.

Scientists specializing in Illumina's technologies, scientific applications, software, and hardware systems are available even before your first system purchase.

Field Service Engineers expertly install and qualify your instrument to guarantee a fully functional system.

Field Application Scientists offer extensive training, enabling labs to quickly become proficient at generating industry-leading data quality at unparalleled throughput levels.

Technical Support Scientists are just a phone call or email away and can help you plan your project, diagnose a problem, and interpret results.

Gene Regulation & Epigenetic Analysis
Gene Expression Analysis
Protein Analysis
Real-Time PCR
Agrigenomics
Cytogenetics
Cancer Genomics

HiScanSQ
iScan
BeadXpress
Eco Real-Time PCR System
Software
BaseSpace

Core Labs
Service Partnerships
Illumina Financial Solutions
Illumina Connect

iCommunity
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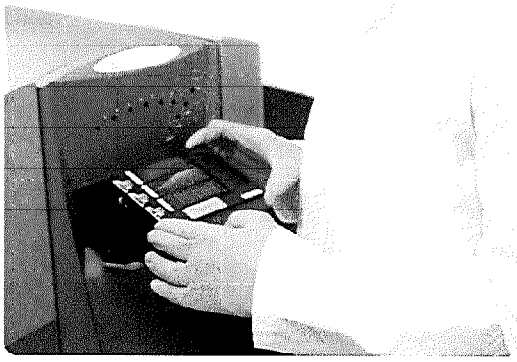
Illumina® FastTrack Genotyping Services

Experience personalized service, industry-leading data quality, and guaranteed turnaround time with Illumina's FastTrack Genotyping Services for a wide range of SNP genotyping projects.

"Overall, our experience working with Illumina has been simply outstanding. The scientific and service staff of this organization are highly talented and committed individuals... The staff of Illumina went well beyond the normal service requirement in order to maximize information yield on these samples."

—PETER K. GREGERSON, M.D., Center Head, The Robert S. Boas Center for Genomics and Human Genetics



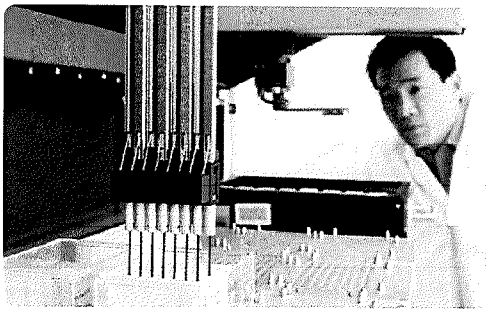
At Illumina, we work collaboratively with you to achieve your research objectives. Using Illumina's cutting-edge SNP genotyping technology, our in-house geneticists have consistently provided on-time, reliable genotyping services to academic and pharmaceutical customers since 2002. In collaboration with our customers, we have provided data for the study of many diseases through services projects, from various cancers to diabetes and schizophrenia. Using Illumina's FastTrack Services gives you the same competitive advantages as our installed base of customers: the ability to conduct whole-genome association studies, DNA copy number studies, linkage analysis, and fine mapping studies in a timely fashion at a reasonable cost.

In addition to the benefits you can realize by outsourcing your discovery efforts, you will also appreciate the professional design assistance and collaborative approach Illumina has proudly delivered since program inception. We highly value the quality outcome of your projects as much as your experience working with us.

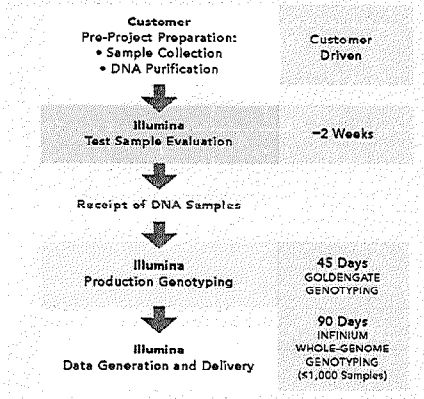
KEY HIGHLIGHTS OF PAST PERFORMANCE

- **Infinium® Service Projects:**
  Sample Success Rate: 99.5%
  Call Rate: 99.89%
- **GoldenGate® Service Projects:**
  DNA Success Rate: 97.6%
  Call Rate: 99.75%

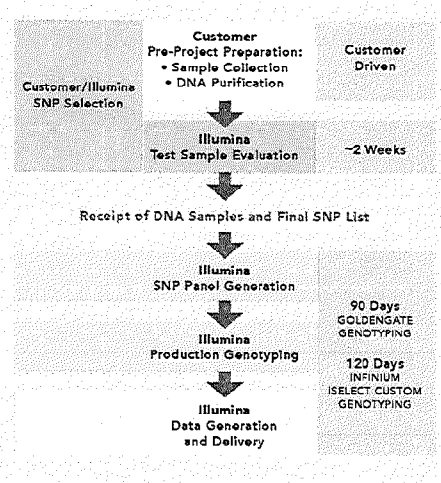
illumina®



STANDARD PANEL GENOTYPING PROJECT TIMELINE



CUSTOM PANEL GENOTYPING PROJECT TIMELINE



PERSONALIZED SERVICE WITH DEDICATED EXPERTS

- An expert molecular geneticist project manager assigned to each project
- Project completion and success ensured with guaranteed fast delivery
- Intensive customer engagement with proven process flow driven by best practices
- Each project dataset reviewed and QC'd by the services group
- Every sample and every SNP locus assigned a quality score
- Streamlined custom SNP selection from an up-to-date database of >1 million validated SNP markers
- Final annotated SNP lists specified with expected assay conversion rates

RELIABLE, PROVEN, FAST, AND ROBUST PROCESS

- Over 200 projects between 2002 and 2006, all delivered on time
- Guaranteed delivery date, with average study turnaround time <90 days
- Over 200,000 DNA samples genotyped, with nearly 100% success
- World-class Illumina BeadLab environment capable of generating over 75 million genotypes per day
- Expertise with large datasets—over 1 billion genotypes delivered for a single customer project
- Fully integrated custom Laboratory Information Management System (LIMS) tracking from sample input to data output and analysis
- Barcoded plates sent to customers to ensure accurate sample tracking
- Streamlined process for safe and secure dry ice sample shipment

INDUSTRY-LEADING DATA QUALITY

- Consistently impressive results from best-performing genotyping products, quality-driven processes, and professional expertise
- Maximal information value at every locus
- Illumina control samples included on every sample plate for extensive real-time QC and data review in LIMS environment
- Low sample input requirements

COMPREHENSIVE STUDY TYPES

- Industry's most flexible and comprehensive portfolio with Infinium and GoldenGate assays
- Standard and custom content
- Whole-genome and fine mapping studies
- Scalable multiplex levels—from 384 custom SNPs to 1 million standard SNPs per assay
- Wide sample size range—from 300 to several thousand
- Tag SNP selection available for any combination of the four HapMap populations
- All organisms supported; extensive experience with organisms such as human, cow, pig, chicken, mouse, dog, and corn
- Seamless transition to follow-on projects—from Infinium Whole-Genome Genotyping to iSelect Custom Genotyping, and then to targeted panels with Custom GoldenGate Genotyping—all with the same trusted team, quality data, and LIMS-driven process

SUMMARY

Take advantage of Illumina's full menu of FastTrack Genotyping Services. Our highly experienced FastTrack Project Managers are committed to working collaboratively with you from beginning to end, to ensure the highest quality data and fast turnaround. Enjoy the benefits of innovative technologies and personalized service from the genotyping market leader.

INFINIUM WHOLE-GENOME GENOTYPING PAST PERFORMANCE*

(Based on all contracts between January and September 2006 >11,500 BeadChips and 3.5 billion genotypes)

Infinium Service Projects	Average
Sample Success Rate	99.47%
Locus Success Rate	99.11%
Call Rate	99.89%
Reproducibility	99.99%
Heritability (Trios)	99.98%

* Performance for individual studies varies and depends on the DNA quality of the samples submitted and the quality of the SNPs selected

GOLDENGATE PAST PERFORMANCE*

Based on all contracts between January 2005 and June 2006 (>150,000 individual DNA samples from 100 projects)

GoldenGate Service Projects	Average
Custom Assay Development Success	
- Human only	92.8%
- All species	91.2%
DNA Success Rate	97.6%
Call Rate	99.75%
Reproducibility	>99.99%
Heritability	>99.99%

* Performance for individual studies varies and depends on the DNA quality of the samples submitted and the quality of the SNPs selected

NUMBER OF LOCI ASSAYED AND TURNAROUND TIME REQUIRED FOR FASTTRACK GENOTYPING SERVICES TO PROCESS STANDARD AND CUSTOM PANELS

Standard Panels	Number of Loci	Guaranteed Turnaround Time
GoldenGate Genotyping	~30–6000	45 days[1]
Infinium Whole-Genome Genotyping	300,000–1,000,000	90 days[1,2]
Custom Panels		
Custom GoldenGate Genotyping	384–8,000+	90 days[3]
Infinium iSelect™ Custom Genotyping	7,600–60,800	120 days[3]
Infinium Semi-Custom HumanHap300-Duo+ Genotyping	7,600–60,800[4]	120 days[2,3]
Infinium Semi-Custom HumanHap550+ Genotyping	7,600–121,600[5]	120 days[2,3]

[1] From DNA sample submission
[2] For up to 1,000 samples
[3] From date of final SNP list and DNA sample submission
[4] Add 7,600–60,800 custom loci to standard 300,000 loci per sample
[5] Add 7,600–121,600 custom loci to standard 550,000 loci

ORDERING INFORMATION

FASTTRACK GENOTYPING SERVICES STANDARD PANEL PROJECTS

CATALOG #	PRODUCT	Number of Loci	DNA Required per Sample (µg)	Volume Required per Sample (µl)
	Infinium Whole-Genome Genotyping Standard Panel Service Project			
FT-20-101	HumanHap300-Duo Genotyping BeadChip	>300,000	3	60
FT-20-102	HumanHap240S-Duo Genotyping BeadChip	>240,000	3	60
FT-20-104	HumanHap550 Genotyping BeadChip	>550,000	3	60
FT-20-105	HumanHap650Y Genotyping BeadChip	>650,000	3	60
FT-20-106	HumanHap450S DNA Analysis BeadChip	>450,000	3	60
FT-20-107	Human1M DNA Analysis BeadChip	>1,000,000	3	60
FT-20-108	HumanCNV370-Duo DNA Analysis BeadChip	>370,000	3	60
FT-20-111	HumanLinkage-12 DNA Analysis BeadChip	>6,000	1.5	30
FT-20-109[5]	BovineSNP50 Genotyping BeadChip	>50,000	1.5	30
FT-20-110[5]	CanineSNP20 Genotyping BeadChip	>20,000	1.5	30
FT-20-113[5]	CVDSNP60 Genotyping BeadChip	>60,000	1.5	30
FT-10-101	**GoldenGate Genotyping Standard Panel Service Project**			
	Linkage V Panel	6,056	4	80
	Mouse LD Linkage	377	2	40
	Mouse MD Linkage	1,449	2	40
	MHC Panel Set	2,360	4	80
	MHC Mapping Panel	1,293	2	40
	MHC Exon-Centric Panel	1,228	2	40
	Cancer SNP Panel	1,421	2	40

[5]These products are currently available for ordering, but will not be in use until late 2007

FASTTRACK GENOTYPING SERVICES CUSTOM PANEL PROJECTS

CATALOG #	PRODUCT	Number of Loci	DNA Required per Sample (µg)	Volume Required per Sample (µl)
FT-15-101	**Custom GoldenGate Genotyping Project**	up to 1,536	2	40
		1,632–4,608	4	80
		4,704–9,216	6	120
FT-25-101	**Infinium iSelect Custom Genotyping Project**	7,600–60,800	1.5	30
FT-25-102	**Infinum Semi-Custom HumanHap300-Duo+ Genotyping Project**	7,600–60,800[7]	3	60
FT-25-103	**Infinium Semi-Custom HumanHap550+ Genotyping Project**	7,600–121,600[8]	3	60

[7]Add 7,600–60,800 custom loci to the standard 300,000 loci per sample on the HumanHap300-Duo Genotyping BeadChip
[8]Add 7,600–121,600 custom loci to the standard 550,000 loci on the HumanHap550 Genotyping BeadChip

ADDITIONAL INFORMATION

Please visit www.illumina.com

Illumina, Inc.
Customer Solutions
9885 Towne Centre Drive
San Diego, CA 92121-1975
1.800.809.4566 (toll free)
1.858.202.4566 (outside the U.S.)
techsupport@illumina.com
www.illumina.com

FOR RESEARCH USE ONLY

Pub. No. 370-2006-025 21Jul07

illumina®

Services / **The Illumina Genome Network**

Announcing the new Cancer Analysis Service from the Illumina Genome Network.

Delivering the most accurate somatic mutation calls for comprehensive cancer studies.

The Illumina Genome Network

The Illumina Genome Network links researchers interested in conducting large whole human genome sequencing project leading institutes worldwide that provide highly economical and rapid turnaround access to Illumina sequencing. Consisti CSPro-certified organizations with proven expertise in generating high-quality, economical human genome data, the Illur Genome Network enables researchers to complete their genome sequencing projects rapidly and confidently. Highest qu data with fast turnaround times: that is the promise of the Illumina Genome Network.

Entrust your study to some of the most recognized names in sequencing, all of whom rely upon the trusted and prover Illumina technology platform. Leverage their expertise to get fast access to comprehensive whole-genome assemblies, including:

- High quality variant calling of single nucleotide polymorphisms (SNPs) and insertions and deletions (Indels)
- Ability to identify Copy Number Variations (CNV) and other structural rearrangements
- Access to a comprehensive set of in-house and third-party analysis tools designed to support the system with the largest installed base in the industry
- Ability to reanalyze data sets over time

You can choose your Illumina Genome Network partner and create service packages based on your individual study requirements. Flexible turnaround times and a range of value-added services are available to meet the unique needs of e study. It's a quick and reliable way to get your sequencing study started on the Illumina sequencing technology platform

GET A QUOTE

Whole Human Genome Sequencing Services Brochure
Illumina Genome Network Data Sheet
Technical Note-Leveraging Whole Human Genome Sequencing in Cancer

High-Quality Data

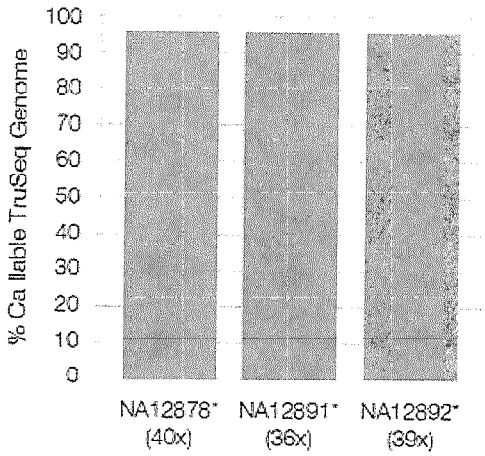
Sound research hinges on good data. While other service companies promise it, the Illumina Genome Network delivers h quality data, using industry-leading HiSeq 2000 systems, TruSeq reagents, and experienced scientists to cost-effectivel perform whole-human genome sequencing. We stand by the accuracy of our data. See how we compare.

More Useable Data

ILLUM-0804

Whole-genome sequencing involves more than obtaining high coverage depth and quality reads. It's the generation of u callable data for variant calling. The Illumina Genome Network runs each base pair through a usable genome test, provid

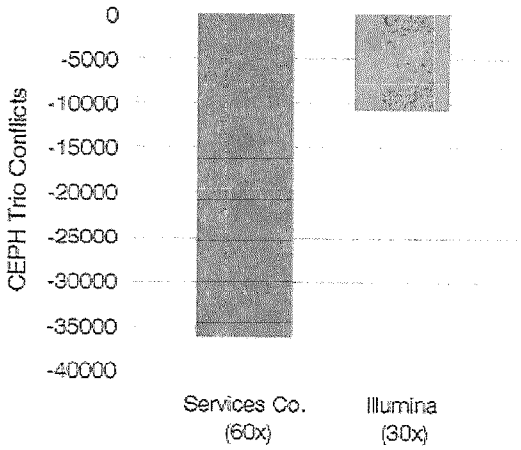
with the highest callable genome (>95%), even in the difficult-to-sequence regions (< 5%). Giving > 80% of all reads p filter a quality score of Q30 or greater.



High Accuracy

Accuracy is vital for calling variants, especially the ones that are central to your research. The Illumina Genome Network the TruSeq genome, the most accurate genome in the industry. Don't take our word for it. See how the TruSeq genom delivers in the following tests:

1. Measuring consensus accuracy at the whole-genome level

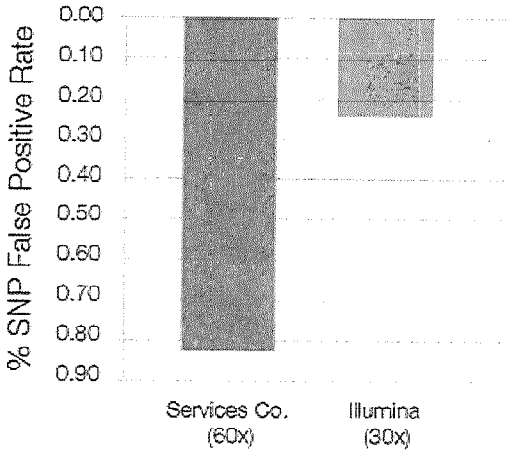


	Services co. (60X)	Illumina (30X)
Callable Sites Present in Trio (bp) "N-Excluded"	2,575,974,378	2,530,389,955
Mendelian Conflicts on Genotypes	35,843	10,801
Conflicts Per Mb	13.91	4.27

2. Analyzing consensus calls

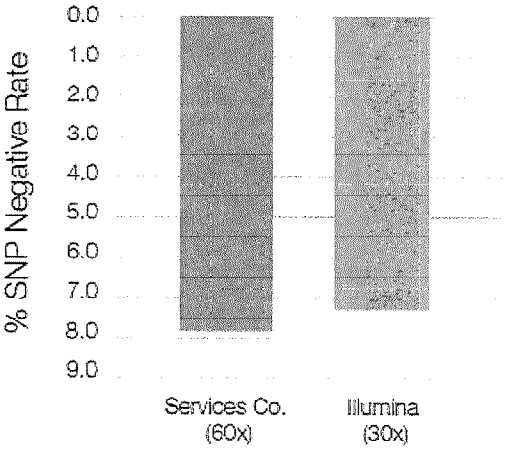
- More SNPs and fewer false positives (so you won't waste time chasing false leads)

ILLUM-0805



	Services co. (60X)	Illumina (30X)
Called SNPs in Any One of Trio	4,294,576	4,403,335
Mendelian Conflicts on Genotypes	35,843	10,801
False Positive Rate	0.83%	0.25%

- More SNPs and fewer false negatives (so you won't miss a variant)



	Services co. (60X)	Illumina (30X)
Called SNPs	3,466,755	3,536,295
Called SNPs from Gold Standard Set (95,005)	87,474	87,965
False Positive Rate	7.93%	7.41%

Analyzing SNP concordance

We run every sample on a HumanOmni-2.5 BeadChip. To support your further studies, we provide this genotyping data well as all WGS data files, as part of the final report.

Cancer Analysis Service

The experts of the Illumina Genome Network (IGN) now offer a Cancer Analysis Service, providing you with the high-con genomic data you need to decipher the mechanisms of cancer. Requiring the lowest sample input (5 µg) of any sequenc service, IGN delivers accurate, easily interpretable, and highly actionable whole-genome sequencing (WGS) data of tumo samples.

Cancer possesses significant heterogeneity at the genetic and histological levels. As a result, the variant calling method needs to properly model the complexities of multiple cancer sub-clones or normal sample contamination. IGN's Bayesian calling method provides the most accurate models for real-life tumor samples, recovering 97% of known SNVs, as comp 77% obtained by competing service offerings.

IGN's Cancer Analysis Service offers:

- Cost-effective solutions for small and large cohort studies, delivering at least 40× average post-alignment coverage of the no genome and at least 80× average post-alignment coverage of the tumor genome.
- Highly actionable WGS data for comprehensive cancer studies.
- Widely adopted data set formats (BAM and VCF) for streamlined analysis.
- Optimized software tools from Illumina informatics partners including Diagnomics, Ingenuity, and Knome, enabling downstrea and interrogation of IGN data sets.
- Smooth data integration with the results of follow-on projects, such as genotyping, RNA-Seq, and methylation studies, using systems and products, enabling a clearer understanding of cancer and the biological pathways it impacts.

IGN Cancer Analysis Service Data Sheet

IGN Cancer Analysis Service Combined Calling Method Poster

GET A QUOTE

The Illumina Genome Network Partners

GENOME SCIENCES CENTRE

BC Cancer Agency Genome Sciences Centre
100-570 West 7th Avenue
Vancouv er, BC V5Z 4S6 Canada

Email: igninfo@bcgsc.ca
Web: www.bcgsc.ca

Canada's Michael Smith Genome Sciences Centre (BCGSC) at the BC Cancer Agency leading international centre for genomics and bioinformatics research. Our mandate i advance knowledge about cancer and other diseases, to improve human health thro disease prevention, diagnosis and therapeutic approaches, and to realize the social a economic benefits of genomics research. Founded in 1999, BCGSC is the largest aca genome centre in Canada, and among the most productive in the world in the fields cancer genomics and bioinformatics. We collaborate locally, nationally and internatior with partners in all ares of genome sciences.

MACROGEN
Advancing through Genomics
Genomic Medicine Institute

Macrogen/Genomic Medicine Institute/Seoul National University
Rm 1002, 10th floor
World Merdian Venture Center
60-24, Gasan-dong, Geumchen-gu
Seoul, 153-781, South Korea

Phone: **+82.2.2113.7000**

Genomic Medicine Institute (GMI) was founded in 1997 with the mission of providing whole genome sequences and supporting the development of genomic technology fc future personalized medicine and taking a role as the institute of excellence for Genc Korea.

ILLUM-0807

Fax: **+82.2.2113.7016**
Email: chipinfo@macrogen.com
Web: www.macrogen.co.kr/eng

NCGR

NCGR (National Center for Genome Resources)
2935 Rodeo Park Drive East
Santa Fe, New Mexico 87505

Contact: **Patricia Mena, Customer Relations Manager**
Phone: **1.505.995.4444**
Fax: **1.505.995.4432**
Email: pmena@ncgr.org
Web: www.ncgr.org

NCGR, a non-profit research institute with extensive experience in Illumina DNA seq data generation and analyses, provides sequencing, genotyping, and analysis servic collaborative setting. Service offerings include whole-genome (including de novo), transcriptome, methylome, ChIP, smRNA, and exome (targeted or whole). Assistanc experimental design, custom data analysis, and visualization tools for de novo asser alignment, and variant detection are available. You can also contact us for Illumina genotyping services.

IGN SERVICE DETAILS

When you send your project to an Illumina Genome Network Partner, you will receive whole human genome sequencing performed at 30X average coverage, from short-insert paired end reads, using a single library. Data analysis will be perf using CASAVA (consensus sequence from ELAND alignment, called SNPs, and small indels). The delivered data set will in reads and quality scores for further downstream analysis.

The following specifications are guaranteed for each sample:

- Average autosomal minimum fold coverage of 30X
- Percent of non-N reference coverage >90% for non-cancer samples
- Paired end sequencing at 2×100bp
- At least 3,000,000 SNPs detected for non-cancer samples

Data will be delivered in standard formats for downstream visualization in Genome Studio or third-party open-source to follows:

- All pass filter reads, alignments, and quality scores in an archival BAM format file, suitable for visualization and downstream analysis
- SNP calls, insertions and deletions with respect to the reference sequence, as well as an allele call and confidence sc for every covered position in the reference
- Text reports for SNP calls for all SNPs in dbSNP for which sufficient coverage has been achieved
- Whole-genome genotyping array data and genotype report

Premium data analysis packages are also available through select Illumina Genome Network Providers. Please send quest directly to your Illumina Genome Network Partner.

WHOLE HUMAN GENOME SEQUENCING COMES OF AGE

In just 15 years, whole human genome sequencing has moved from an expensive, labor intensive, time consuming project costing $40 million, to a study that can be performed quickly and accurately by the Illumina Genome Network for $4,000 (50+ samples). Based on industry-leading TruSeq technology, Illumina sequencers are enabling whole genome sequencing (WGS) to become an integral part of human disease research, whether performed by researchers in their own laboratories, or by Illumina and its Illumina Genome Network partners.

Advances in Whole Hun Genome Sequencing
Click to enlarge »

See how whole human genome sequencing powered by Illumina sequencers is providing insight into the mechanisms of cancer and other life-threatening conditions, enabling researchers to visualize what's occurring a genomic level to develop better therapeutics and improved diagnostics.

RESEARCH AND DISCOVERY

Cancer

ILLUM-0808

REVIEWS AND COMMENTARIES

Reviews

Mendelian, Rare Disease

WHOLE HUMAN GENOME DATA ANALYSIS

Bioinformatics and Methods

OTHER INTERESTING WGS PUBLICATIONS

WGS and Methylation

Commentaries

ILLUMINA GENOME NETWORK PARTNER PUBLICATION

Partners

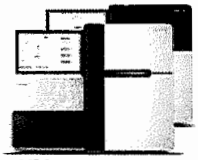
Innovative technologies
At Illumina, our goal is to apply innovative technologies and revolutionary assays to the analysis of genetic variation and function, making studies possibl not even imaginable just a few years ago. These studies will help make the realization of personalized medicine possible. With such rapid advances in tec taking place, it is mission critical to have solutions that are not only innovative, but flexible, scalable, and complete with industry-leading support and serv global company that places high value on collaborative interactions, rapid delivery of solutions, and prioritizing the needs of its customers, we strive to me challenge. Illumina's innovative, array-based solutions for DNA, RNA, and protein analysis serve as tools for disease research, drug development, and the development of molecular tests in the clinic.

ILLUM-0809

Exhibit 202

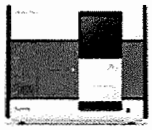
Systems

Sequencing



HiSeq Systems
Any application. Any study. Any budget.

GET MORE INFO



Genome Analyzer IIx
Most widely published and adopted next-gen system

GET A QUOTE

MiSeq
Prep, run, analyze in as little as 8 hours

GET A QUOTE

Sequencing + Arrays

HiScanSQ
High-throughput arrays with next-gen sequencing, one streamlined solution

GET A QUOTE

Arrays - Low- to High-Plex

HiScan
Powerful array scanner; expandable to add next-gen sequencing

GET A QUOTE

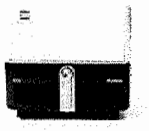
iScan
Dedicated array scanner; processes up to 96 multi-sample BeadChips per day

GET A QUOTE

BeadXpress
Broadest multiplexing range, assay versatility, superb data quality, and regulated device

GET A QUOTE

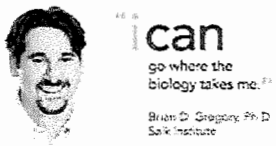
Real-Time PCR System



Eco Real-Time PCR System
High-performance thermal control & uniformity, open platform supporting variety of qPCR applications

ORDER NOW

Featured Researcher



Science Publications

- Next is now: new technologies for sequencing of genomes, transcriptomes, and beyond. Lister R et al. 2009.
- Genomic copy number variation, human health, and disease. Wain LV et al. 2009.

See more Featured Publications

Featured Partner

iGenix, inc.

iGenix, Inc. provides Illumina BeadXpress lab services for genotyping, copy number variation assessment, methylation and expression studies, maximizing your research efficiency and data accuracy.

News and Events

- Illumina Receives FDA 510(k) Clearance for Its BeadXpress(R) Multiplex Analysis System
- Illumina Now Shipping HiScan(TM)SQ Platform
- Illumina Announces Its First Full Coverage DNA Sequencing of a Named Family

ILLUM-0810

Cytogenetics

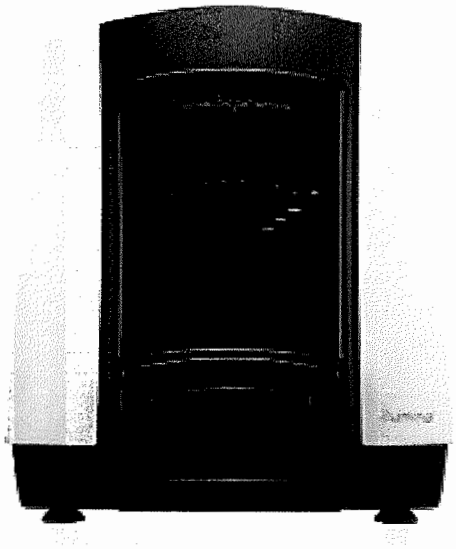
Cancer Genomics

Customer Service

Training

Innovative technologies
At Illumina, our goal is to apply innovative technologies and revolutionary assays to the analysis of genetic variation and function, making studies possible that were not even imaginable just a few years ago. These studies will help make the realization of personalized medicine possible. With such rapid advances in technology taking place, it is mission critical to have solutions that are not only innovative, but flexible, scalable, and complete with industry-leading support and service. As a global company that places high value on collaborative interactions, rapid delivery of solutions, and prioritizing the needs of its customers, we strive to meet this challenge. Illumina's innovative, array-based solutions for DNA, RNA, and protein analysis serve as tools for disease research, drug development, and the development of molecular tests in the clinic.

ILLUM-0811



Optimal Solution for low- to mid-plex molecular testing

Assay versatility
Superb data quality
Dual-color laser system

BeadXpress

System

Applications

Kits

Options & Accessories

Specifications

Workflow

Literature

Technology

Software

Support

VeraCode Technology

Enabling a broad range of multiplexing options for RNA, DNA and protein applications

Watch the video »

Illumina's VeraCode technology leverages the power of digital holographic codes to provide a robust detection method for multiplex assays requiring high precision, accuracy, and speed.

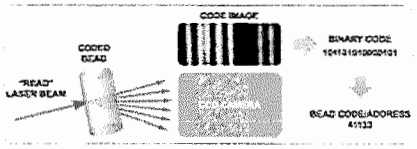
The truth is in the code

Comprised of cylindrical glass microbeads measuring 240 microns in length by 28 microns in diameter, VeraCode microbeads provide an ideal surface for numerous bioassays including genotyping, gene expression, and protein-based assays. Illumina's proprietary technology precisely embeds digital holographic elements within each microbead to create unique bead types. Each microbead can easily carry high-density codes (24-bit), for virtually unlimited development of bead types.

When excited by a laser, each VeraCode bead emits a unique code image, allowing for quick and specific detection by Illumina's BeadXpress Reader System. Depending on desired multiplex levels, assays are created by pooling microbeads with code diversities from one to several hundred. VeraCode beads are highly stable and the digital coding provides customizable tracking of not only the target(s) of interest, but also of critical identifiers such as sample ID, laboratory ID, and reagent kits.

Veracode technology highlights

- Unsurpassed multiplexing range
- Robust performance and customizable tracking
- Assay versatility
- Rapid sample throughput
- Two-color detection system



Life Sciences | **Personal Sequencing** | Diagnostics

ようこそイルミナ株式会社へ 中文网站

Applications

Sequencing
GWAS
SNP Genotyping & CNV Analysis
Gene Regulation & Epigenetic Analysis
Gene Expression Analysis
Protein Analysis
Real-Time PCR
Agrigenomics
Cytogenetics
Cancer Genomics

Systems

HiSeq Systems
Genome Analyzer IIx
MiSeq
HiScanSQ
iScan
BeadXpress
Eco Real-Time PCR System
Software
BaseSpace

Services

Genome Network
FastTrack Services
CSPro
Core Labs
Service
Partnerships
Illumina Financial Solutions
Illumina Connect

Science

Publications
Researchers
Technology
iCommunity
Webinars

Support

Product Documentation
Product Literature
Software
BaseSpace
FAQs
DesignStudio
Assay Design Tool
Product Files
Eco Real-Time PCR Support
Customer Service
Training

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Newsroom
Investor Relations
Privacy
Legal
California Transparency in Supply Chain

ILLUM-0813

Innovative technologies
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complete with industry-leading support and service. As a global company that places high value on collaborative interactions, rapid delivery of solutions, and prioritizing the needs of its customers, we strive to meet this challenge. Illumina's innovative, array-based solutions for DNA, RNA, and protein analysis serve as tools for disease research, drug development, and the development of molecular tests in the clinic.

ILLUM-0814

Systems / BeadXpress / **Applications**

BeadXpress

System

Applications

Kits

Options & Accessories

Specifications

Workflow

Literature

Technology

Software

Support

Custom Low- to Mid-plex Genotyping

For profiling and validation studies requiring low to mid-plex genotyping, Illumina provides customized solutions that allow researchers to optimize the number of loci per sample and throughput level to best suit their study goals. Custom assay panels can be easily developed for any species and deployed with either BeadArray or Veracode technology.

More...

Custom Low- to Mid-plex Methylation Analysis

For methylation profiling studies requiring low- to mid-plex analysis, Illumina provides a customized solution that allows researchers to target CpG loci within genes or regions of interest. With the proven VeraCode GoldenGate Methylation Assay, customized probes can be easily developed for virtually any experimental design.

More...

Protein Screening

VeraCode technology provides a simple and flexible solution for multiplexed protein assays. With VeraCode Carboxyl Bead Sets, any protein or peptide can be covalently attached to the highly stable microbead surface, enabling the development of standard "sandwich" immunoassays. The 48 unique Carboxyl bead types can be pooled in varying combinations to perform up to 48 immunoassays in a single reaction in a standard 96-well microplate.

More...

Innovative technologies
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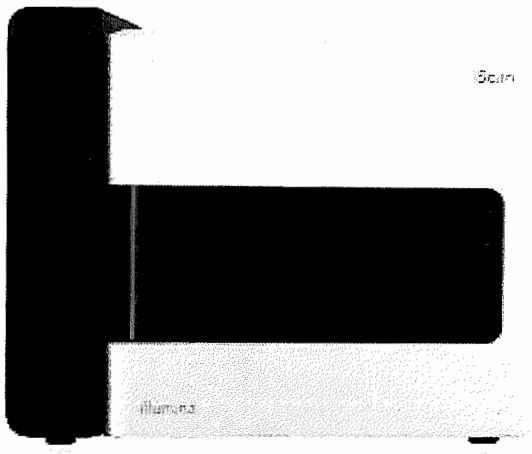


Cutting-edge array scanner

Highest Data Quality
Highest Sample Throughput
Flexible Platform

Systems / iScan / **Applications**

iScan

Overview
System
Applications
Kits
Literature
Options & Accessories
Technology
Software
Support

Whole-Genome Genotyping and Copy Number Variation Analysis

Since they were first developed in 2005, whole-genome genotyping (WGGT) arrays have become an important tool for discovering variants that contribute to human diseases and phenotypes. The two primary applications of this technology, genome-wide association studies (GWAS) and copy number variant (CNV) analysis, have helped researchers begin to unravel the complex genetic architecture behind diseases such as diabetes and Crohn's disease, and traits such as hair and eye color.

Illumina's WGGT Infinium BeadChips offer researchers the flexibility to genotype samples with hundreds of thousands to millions of markers that deliver dense genome-wide coverage with the most up-to-date content available from the scientific community. Markers on the BeadChips are strategically selected by Illumina scientists to provide maximum coverage of the genome for both association testing and copy number detection.

The Omni Family of Microarrays

The latest generation of Infinium WGGT products is The Omni Family of Microarrays. This flexible, complimentary family of microarrays represents a revolution in array design, delivering up to 5 million makers per sample and offering an unprecedented amount of customizability. Designed from next-generation sequencing data from international projects such as the 1000 Genomes Project, Omni microarrays deliver unrivaled coverage of the genome. Access to whole-genome sequencing data provides the most complete picture of the extent of variation, allowing Illumina scientists to select the most informative markers to provide superior power to detect trait- and disease-associated variants.

More...

Custom Mid- to High-plex Genotyping

For researchers who want to study focused genomic regions of interest, or are interested in organisms for which there are no standard products, Illumina offers a broad range of custom genotyping options. Customized iSelect BeadChips can be easily developed to fit any experimental design, allowing customers to select the ideal solution for their loci multiplexing and sample throughput requirements. Convenient online tools and Illumina representatives are available to help you design and select your markers of interest, and choose the assay and customized products to best suit your research goals.

More...

Focused Genotyping

Focused genotyping supports a variety of applications such as candidate-gene studies in cancer, cardiovascular disease, and admixture mapping. Illumina also works closely with major animal consortia to develop genome-wide genotyping products for non-human organisms, including both animal and plant species.

More...

Cytogenetic Analysis

Structural variability is a substantial source of genetic variation that has a major influence on phenotypic variation. Cytogenetic analysis allows researchers to profile chromosomal aberrations such as amplifications, deletions, rearrangements, point mutations, copy number changes, and copy-neutral loss of heterozygosity (LOH) events.

More...

ILLUM-0818

Linkage Analysis

Linkage analysis provides researchers a powerful method for mapping the location of disease-causing loci by identifying genetic markers that are co-inherited with a phenotype of interest. Illumina's linkage analysis BeadChips present the optimal solution for identifying regions of statistically unequivocal linkage by delivering the information content, call rates, and accuracy that enable discovery of links between familial genotype and phenotype in both monogenic and polygenic disorders.

More...

Array-Based Methylation Analysis

DNA methylation plays a critical role in the regulation of gene expression and has been implicated in the etiology of many human diseases including cancer. Methylation profiling with BeadArray technology allows researchers to analyze the effects of aberrant methylation (either hyper- or hypomethylation) for a variety of applications. Illumina has developed a robust methylation profiling platform that provides quantitative methylation measurement at the single-CpG-site level, providing the highest resolution for understanding epigenetic changes.

More...

Transcriptome Analysis

RNA sequencing has revolutionized the exploration of gene expression. Advances in the sequencing workflow, from sample preparation through data analysis, enable rapid profiling and deep investigation of the transcriptome. With RNA sequencing, you can characterize all transcriptional activity, coding and non-coding, in any organism without a priori assumptions.

Illumina's unique combination of long and short reads, single and paired-end sequencing, strand specificity, and capacity for tens of millions to billions of reads per run allows you to

- annotate coding SNPs
- discover transcript isoforms
- identify regulatory RNAs
- characterize splice junctions
- determine the relative abundance of transcripts

With the greatest daily output available for any sequencing system, transcript profiles can be generated in a single day. RNA sequencing reads can be aligned across splice junctions to identify isoforms, novel transcripts and gene fusions. Identify and quantify both rare and common transcripts, with over six orders of magnitude of dynamic range. Reveal the hidden world of non-coding RNA architecture without prior information.

More...

FFPE Sample Analysis

Formalin-fixed, paraffin-embedded (FFPE) samples are preserved tissue samples that are generally associated with disease. Many of these samples represent clinical outcomes, which could provide a potential gold mine of information when linked with underlying expression profiles. FFPE samples generally contain partially degraded RNA, so transcription analysis is a challenge for many gene expression assays. By using unique PCR and labeling steps based on the proven GoldenGate chemistry, Illumina's DASL assays provide high-quality data from degraded RNA samples. The DASL assay is available in the Whole-Genome DASL Assay, a fixed content, whole-genome profiling panel.

More...

Gene Regulation & Epigenetic Analysis
Gene Expression Analysis
Protein Analysis
Real-Time PCR
Agrigenomics
Cytogenetics
Cancer Genomics

HiScanSQ
iScan
BeadXpress
Eco Real-Time PCR System
Software
BaseSpace

Service Partnerships
Illumina Financial Solutions
Illumina Connect

Webinars

BaseSpace
FAQs
DesignStudio
Assay Design Tool
Product Files
Eco Real-Time PCR Support
Customer Service
Training

Newsroom
Investor Relations
Privacy
Legal
California Transparency in Supply Chain

Innovative technologies
At Illumina, our goal is to apply innovative technologies and revolutionary assays to the analysis of genetic variation and function, making studies possible that were not even imaginable just a few years ago. These studies will help make the realization of personalized medicine possible. With such rapid advances in technology taking place, it is mission critical to have solutions that are not only innovative, but flexible, scalable, and complete with industry-leading support and service. As a global company that places high value on collaborative interactions, rapid delivery of solutions, and prioritizing the needs of its customers, we strive to meet this challenge. Illumina's innovative, array-based solutions for DNA, RNA, and protein analysis serve as tools for disease research, drug development, and the development of molecular tests in the clinic.

Systems / iScan / **Technology**

iScan

Overview
System
Applications
Kits
Literature
Options & Accessories
Technology
Software
Support

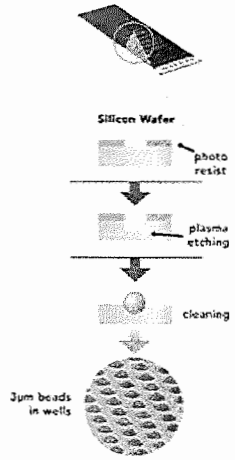
BeadArray Technology

A fundamentally different approach to high-density microarrays

Illumina's BeadArray Technology is based on 3-micron silica beads that self assemble in microwells on either of two substrates: fiber optic bundles or planar silica slides. When randomly assembled on one of these two substrates, the beads have a uniform spacing of ~5.7 microns. Each bead is covered with hundreds of thousands of copies of a specific oligonucleotide that act as the capture sequences in one of Illumina's assays. BeadArray technology is utilized in Illumina's iScan System for a broad range of DNA and RNA analysis applications. The original Infinium II Assay was great, but Infinium HD is remarkable. Most samples have an average call rate of 99.9% off the shelf, which makes downstream curation of data a whole lot easier. For those who aren't curating their data, there's much less downstream work because there is less likelihood of false positives and negatives due to the higher sample call rates. In addition to data quality, the ability to run four samples per chip clearly gets to the answers a lot faster.

BeadArray technology is deployed on either of two multi-sample array formats for DNA or RNA-analysis applications. With multi-sample BeadChip formats, uniform pits are etched into the surface of each substrate to a depth of approximately 3 microns prior to assembly. Beads are then randomly assembled and held in these microwells by Van der Waals forces and hydrostatic interactions with the walls of the well.

The Universal BeadChip format is used in Illumina's GoldenGate Genotyping and Focused Arrays applications. The BeadChip format is used in Illumina's Infinium Genotyping, DASL Gene Expression, and Focused Arrays applications.



Illumina multi-sample array formats

ILLUM-0821

Innovative technologies
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ILLUM-0822

Applications / **Genome-Wide Association Studies (GWAS)**

Omni Arrays

Dig deeper into your research. Make new discoveries. Tailor your studies.

The new Omni5 harnesses over ten years of genomic research, capturing variation down to 1% MAF. With more than 4.3 million high-value markers. And room for 500k of your own.

It's the most powerful genotyping array for your whole-genome studies yet. Take a closer look at the Omni5.

Omni Roadmap. Delivered.

Since the Omni family of microarrays was launched in 2009, we've offered an expanding selection of flexible arrays featuring only the most informative common and progressively rare variants. Delivering the most powerful markers selected from the International HapMap Project and the 1000 Genomes Project. Built with input from thought leaders in the human genetics research community. To ensure these markers would most effectively advance your studies.

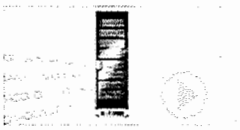
Now the Omni5 is here. This flagship array dramatically expands the catalog of rare variants, offering unprecedented coverage of the genome, including high-value regions that deliver the most power to identify variants associated with disease.

An array for any study. Any budget.

The Omni family gives you the flexibility to study the widest range of genetic variation—no matter your study size, sample population, research focus, or budget. Get the most comprehensive coverage of common and rare variants with the Omni5. Or, start smaller and build your variant collection with Omni products as your study grows.

Wherever you begin, you're guaranteed to be working with the most robust family of microarrays. All backed by the powerful Infinium Assay. With the highest-throughput. Intelligent tag-SNP selection. Cutting-edge content. All making the most of what this decade of genomic research has revealed. Giving you the power to effectively drive your next-gen GWAS studies—and discoveries.

View the collection of Omni products.

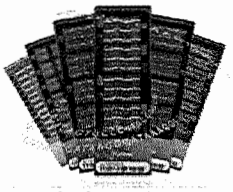


Video | Infinium Assay Driving Genomic Discovery

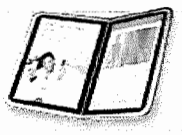
Discover the technology »
Watch the Infinium Arrays animation

Video | Next-Gen GWAS: Illumina's Omni Roadmap.

View the video »
Watch recent advancements in human genomics.



Launch the chip selector »
Select the best array for your research.



ILLUM-0823

Innovative technologies
At Illumina, our goal is to apply innovative technologies and revolutionary assays to the analysis of genetic variation and function, making studies possible that were not even imaginable just a few years ago. These studies will help make the realization of personalized medicine possible. With such rapid advances in technology taking place, it is mission critical to have solutions that are not only innovative, but flexible, scalable, and complete with industry-leading support and service. As a global company that places high value on collaborative interactions, rapid delivery of solutions, and prioritizing the needs of its customers, we strive to meet this challenge. Illumina's innovative, array-based solutions for DNA, RNA, and protein analysis serve as tools for disease research, drug development, and the development of molecular tests in the clinic.

ILLUM-0824

Applications / **Genome-Wide Association Studies (GWAS)**

Omni Overview Applications Omni BeadChips Infinium Overview Software Literature

Applications

Since they were first developed in 2005, whole-genome genotyping arrays have become an invaluable tool for discovering variants that contribute to human diseases and phenotypes. The two primary applications of this technology, genome-wide association studies (GWAS) and copy number variant (CNV) analysis, have helped researchers begin to unravel the complex genetic architecture behind diseases such as diabetes and Crohn's disease, and traits such as hair and eye color.

GWAS

GWAS has already proven very successful as an analytical approach to help researchers identify regions of the genome that harbor causative alleles for a trait or disease. This is accomplished by evaluating whole-genome genotypes across a large number of DNA samples and identifying those genetic variants that occur more frequently in people with a given trait or disease (cases), relative to those without the trait or disease (controls). Those variants that have statistically significant allele frequencies across the two groups of samples are said to be associated with that phenotype. Once an association is identified, it serves as an indicator to the region of the genome where causative variants are likely to exist. The use of GWAS to uncover these variants has proved immensely successful, identifying thousands of variants in hundreds of publications in a few short years. However, much remains to be discovered as researchers embark on a next-generation of GWAS, using new microarrays that allow detection of rarer variation and expand the catalog of diseases, traits, and populations studied.

Structural Variation Analysis

Structural Variation, is thought to be a significant contributor to the genetic basis of human disease. The same raw signal intensity data that is used to call genotypes can be used to identify regions where the genome contains either increased or decreased gene copy numbers. Furthermore, the added information of genotypes allows researchers to identify copy number neutral loss-of-heterozygosity. Dense marker spacing on the Omni microarrays, coupled with the sensitive Infinium assay and Illumina's high-precision array scanners, offer researchers a powerful solution for analyzing a range of structural variants.

Analysis
Protein Analysis
Real-Time PCR
Agrigenomics
Cytogenetics
Cancer Genomics
BeadXpress
Eco Real-Time PCR System
Software
BaseSpace
Illumina Financial Solutions
Illumina Connect
DesignStudio
Assay Design Tool
Product Files
Eco Real-Time PCR Support
Customer Service
Training
Privacy
Legal
California Transparency in Supply Chain

Innovative technologies
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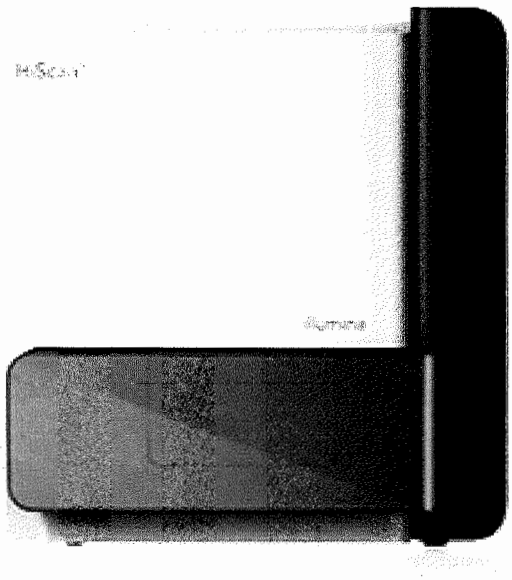
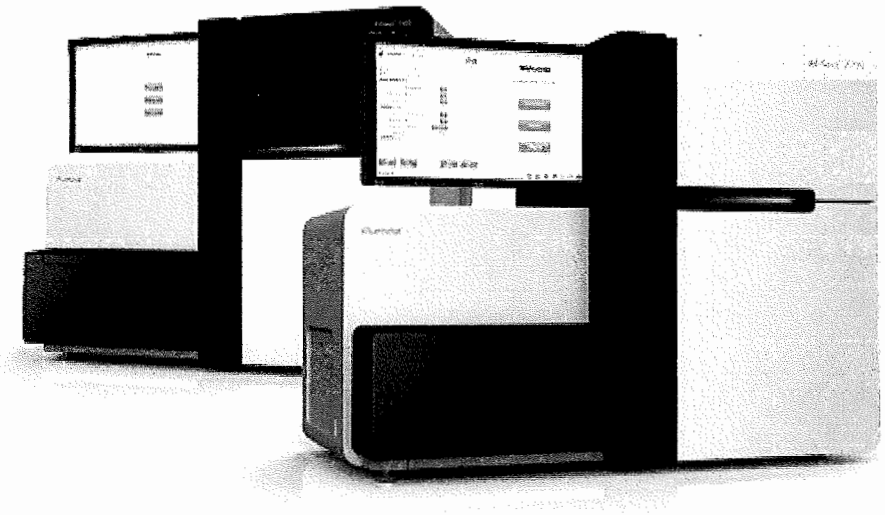
ILLUM-0826



Powerful array scanner, expandable to add next-gen sequencing

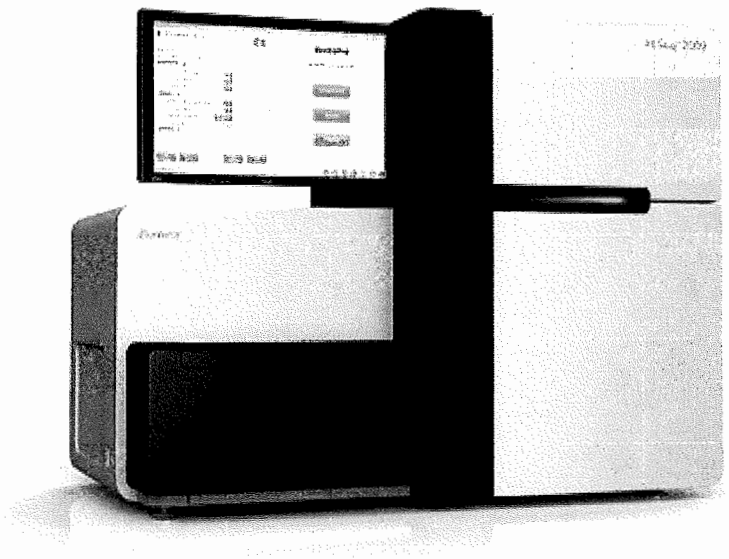


Genome today, interpreted tomorrow

The world's most powerful sequencer, now with a rapid-run mode.

Coming mid-2012.

ILLUM-0828



Empowering your studies like no other

Highest throughput.
Highest data quality.

LEARN MORE

HiSeq™ Sequencing Systems

Redefining the trajectory of sequencing.

HiSeq System Highlights

- **High Accuracy and Unprecedented Output:** Generate up to 600 Gb per run with the highest yield of data greater than Q30.
- **Breakthrough User Experience:** Easily set up runs with simplified library prep, automated clonal amplification, pre-configured, plug-and-play reagents, simple flow cell loading, touch screen-enabled user interface, and integrated paired-end fluidics.
- **Unmatched Cost-Effectiveness:** Unrivalled output and ease of use with the industry's simplest sequencing workflow provide the lowest overall operating cost.
- **Flexibility:** HiSeq 1000 offers broader access to HiSeq technology, providing an easy upgrade path to the HiSeq 2000 as sequencing needs change.

Sequence at a Scale Never Before Possible

HiSeq Sequencing Systems combine Illumina's proven and widely-adopted, reversible terminator-based sequencing by synthesis (SBS) chemistry with innovative engineering. Comprised of the HiSeq 2000 (Figure 1) and HiSeq 1000 systems, this high-performance sequencing family combines human interaction design features and the easiest sequencing workflow, setting a new standard for simplicity and user experience.

The HiSeq 2000 sequencing system delivers the industry's highest sequencing output and fastest data generation rate. With the industry's simplest sequencing workflow and unmatched cost effectiveness, HiSeq 2000 has lowered the cost of whole-human genome sequencing to unrivaled levels.

Offering the same outstanding user experience and cost per data output (Gb), the HiSeq 1000 enables researchers to access HiSeq performance, with a built-in upgrade path should sequencing throughput needs change.

Unprecedented Output

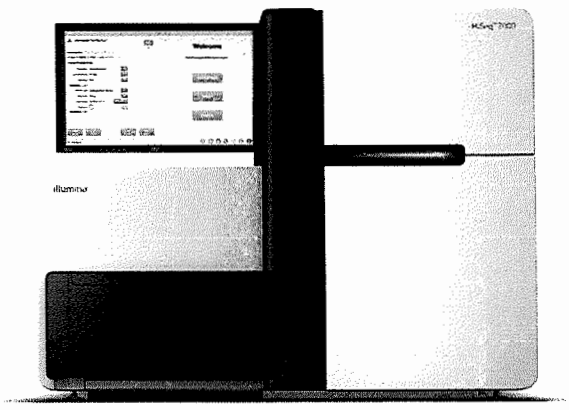
HiSeq Systems make it possible for individual labs to take on the largest and most complex sequencing studies at a lower cost. With cutting-edge scanning and imaging technology, clusters on both surfaces of the flow cell can be sequenced, dramatically increasing the number of reads, sequence output, and data generation rate. The ultra-high output and speed of the two flow cell HiSeq 2000 makes it possible to sequence > 5 human genomes at ~30× coverage simultaneously, up to 192 gene expression samples or 100 exome samples in a single run. The HiSeq 1000 System is an exceptionally powerful tool for researchers who do not require the throughput of a HiSeq 2000. It enables researchers to sequence > 2 human genomes at ~30× coverage or 96 gene expression samples in one run.

Breakthrough User Experience

Innovative design features make HiSeq Systems the easiest-to-use next-generation sequencing systems (Figure 2). Flow cells are loaded on the vacuum-controlled loading dock. Pre-configured, plug-and-play reagents sufficient for up to 200 cycles plus indexing, drop into racks in the machine's chiller compartment, requiring only two minutes of hands-on time. A simple touch screen user interface, including on-screen, step-by-step instructions with embedded multimedia help, simplifies run setup. Real-time progress indicators provide at-a-glance status, and remote monitoring allows a single user to check progress on multiple systems from any browser or internet-enabled phone.

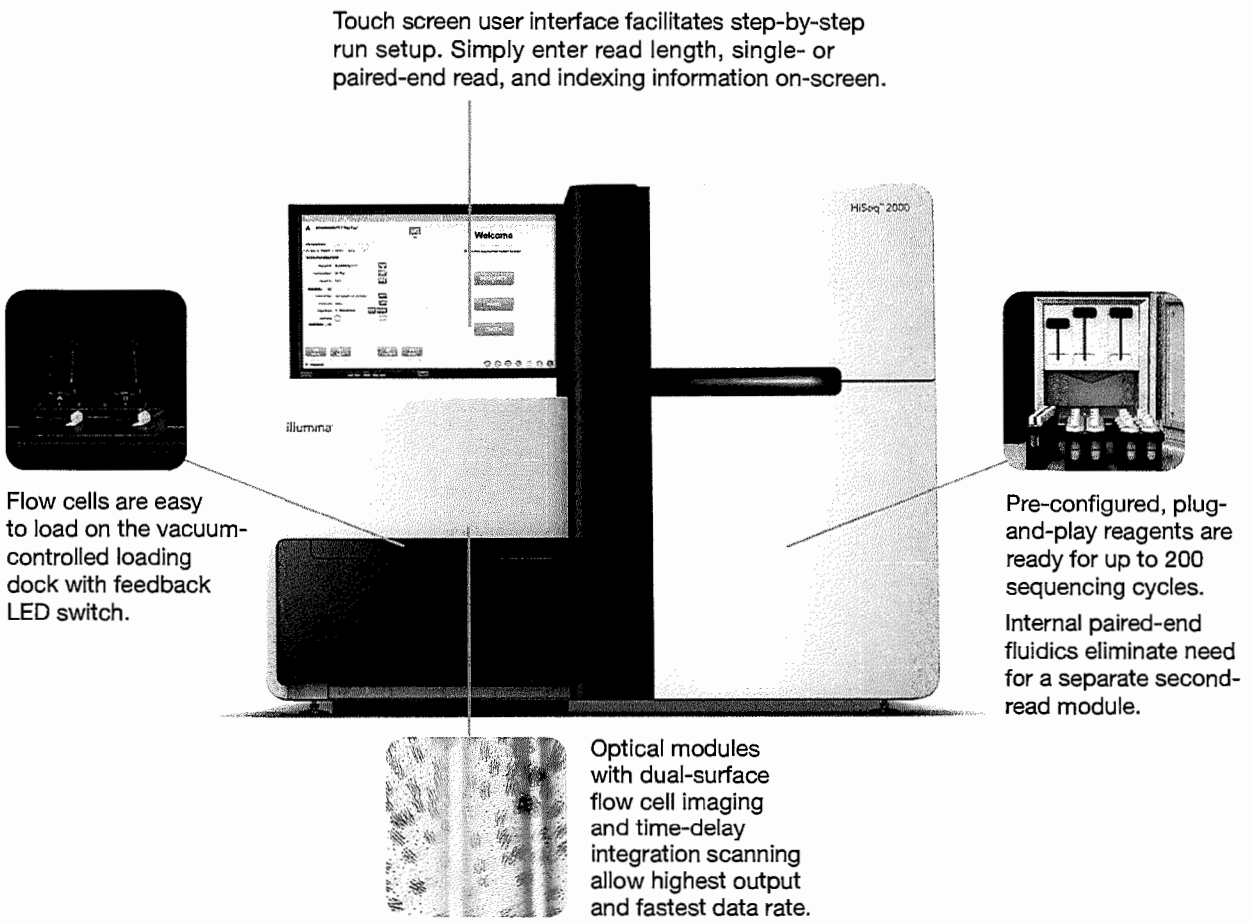
HiSeq 2000 can be operated in single or dual flow cell mode, offering unmatched experimental flexibility and instrument scalability. Its independently-operable flow cells allow applications requiring different read lengths to run simultaneously. The single flow cell HiSeq 1000 delivers the same user experience and output per flow cell, and can be easily upgraded to the dual flow cell HiSeq 2000 to meet growing research needs.

Figure 1: HiSeq 2000 System



Illumina's HiSeq 2000 sequencing system enables individual labs to take on larger and more complex studies, including routine human genome sequencing.

Figure 2: HiSeq 2000 Innovative Design Features



HiSeq Systems redefine the trajectory of sequencing. Innovative engineering and human interaction design features provide a breakthrough user experience and unmatched cost-effectiveness.

Figure 3: Next-Generation Sequencing Simplified

Library Preparation	Cluster Generation	Sequencing by Synthesis	CASAVA
~2 h [15 min hands-on (Nextera)] < 6 h [< 3 h hands-on (TruSeq)]	~5 h (<10 min hands-on)	~1.5 to 11 days	2 days (30 min hands-on)

From simplified sample preparation kits and automated cluster generation, to streamlined sequencing by synthesis and complete data analysis, Illumina HiSeq sequencing systems offer the industry's simplest next-generation sequencing workflow.

TruSeq™ Chemistry

The TruSeq family of reagents represents the latest advancement of Illumina's SBS technology. Permeating the entire chemistry workflow, from sample preparation through DNA sequencing, TruSeq underlies Illumina sequencing and empowers it to deliver the industry's most accurate genomic data for a broad range of applications.

SBS technology enables massively parallel sequencing of millions of fragments using a proprietary reversible terminator-based method that detects single bases as they are incorporated into growing DNA strands. A fluorescently-labeled terminator is imaged as each dNTP is added and then cleaved to allow incorporation of the next base. Since all four reversible terminator-bound dNTPs are present during each sequencing cycle, natural competition minimizes incorporation bias. Base calls are made directly from signal intensity measurements during each cycle, which greatly reduces raw error rates compared to other technologies. The end result is highly accurate base-by-base sequencing that eliminates sequence-context specific errors, enabling robust base calling across the genome, including repetitive sequence regions and within homopolymers.

Powered by TruSeq chemistry, Illumina sequencing delivers the most accurate human genome at any level of coverage. The highest yield of error-free reads and most base calls above Q30 provide researchers the highest confidence in their data integrity to draw sound biological conclusions.

Easiest Sequencing Workflow

The Illumina sequencing workflow is based on three simple steps: libraries are prepared from virtually any nucleic acid sample, amplified to produce clonal clusters, and sequenced using massively parallel synthesis. Library preparation can be performed using Illumina's simplified TruSeq sample prep kits or Nextera's Illumina sequencer-compatible DNA Sample Prep Kits. Cluster generation occurs on the cBot automated cluster generation system, where hands-on time is less than ten minutes, compared to more than six hours of hands-on effort for emulsion PCR methods. The process of creating sequencing templates is complete in about four hours per flow cell. For sequencing, either one or two flow cells can be loaded on HiSeq 2000, enabling different experimental conditions to be run simultaneously. Pre-configured sequencing reagents are dropped in the instrument reagent racks prior to the start of the run.

Streamlined Data Analysis Solution

Accompanying the unprecedented sequencing output of HiSeq 2000 and HiSeq 1000 is Illumina's data analysis solution for transforming billions of bases of raw sequencing data into publishable, biologically meaningful results. HiSeq Control Software offers real-time analysis processing that automatically produces image intensities and quality-scored base calls on the instrument computer for alignment to a reference sequence and subsequent analysis. In combination with the Consensus Assessment of Sequence and Variation (CASAVA) software, GenomeStudio® data analysis software provides intuitive, graphical analysis. The optional IlluminaCompute system is available as a comprehensive and scalable computing architecture for genomic data processing and analysis. IlluminaCompute is an individually configured, pre-packaged data analysis solution consisting of scalable processing, scale-out storage, and comprehensive support for installation, training, and maintenance.

Installation and Support

Comprehensive installation and training is included with every HiSeq System purchase, along with on-going technical support, maintenance and service. Illumina's industry-leading support is available in North America, Europe, and Asia.

Easy Upgrade Path

HiSeq 1000 provides another entry point into the world of HiSeq high-performance sequencing, providing the scalability needed to accomodate expanding sequencing needs. HiSeq 1000 instrument upgrades are performed on-site, quickly transforming the system to a HiSeq 2000 to deliver the industry's highest sequencing output and fastest data generation rate.

HiSeq System Information

HiSeq System Performance Parameters

Parameters	Single Flow Cell (HiSeq 2000 or 1000)*		Dual Flow Cell (HiSeq 2000 only)	
Read Length	Run Time	Output	Run Time	Output
1 × 35 bp	~1.5 days	47–52 Gb	~2 days	95–105 Gb
2 × 50 bp	~4.5 days	135–150 Gb	~5.5 days	270–300 Gb
2 × 100 bp	~8.5 days	270–300 Gb	~11 days	540–600 Gb
Reads	Up to 1.5 billion clusters passing filter, and up to 3 billion paired-end reads		Up to 3 billion clusters passing filter, and up to 6 billion paired-end reads.	
Throughput	Up to 35 Gb per day for a 2 × 100 bp run		Up to 55 Gb per day for a 2 × 100 bp run	
Performance	Greater than 85% bases higher than Q30 at 2 × 50 bp† Greater than 80% bases higher than Q30 at 2 × 100 bp†			

*HiSeq 2000 can be run as a single flow cell or dual flow cell system.

†Install specifications for HiSeq sequencers with an Illumina PhiX library and cluster densities between 610 – 678 K/mm² that pass filtering on a HiSeq system using TruSeq v3 Cluster and SBS kits for HiSeq. Performance may vary based on sample quality, cluster density, and other experimental factors. Paired 100 bp runs may vary in the range of 80 to 90% of bases above Q30 and paired 50 bp runs typically vary in the range of 85 to 95% bases above Q30 based on the above factors.

HiSeq System Specifications with Monitor and PC

Instrument Configuration
Computer and touch screen display
Installation setup and accessories
Data collection and analysis software

Instrument Control Computer
Base Unit: 2x Intel Xeon X5560 2.8 GHz CPU
Memory: 48 GB RAM
Hard Drive: 4x 1.0 TB 7200 RPM SATA
Operating System: Windows Vista

Note: Computer specifications will be regularly upgraded.
Contact your local account manager for current configuration.

Operating Environment
Temperature: 22°C ± 3°C
Humidity: Non-condensing 20%–80%
Altitude: Less than 2,000 m (6,500 ft)
Air Quality: Pollution degree rating of II
Ventilation: Maximum of 4,000 BTU/h
For Indoor Use Only

Laser
532 nm, 660 nm, 650 nm (barcode reader)

Dimensions
WxDxH: 118.6 cm x 76.0 cm x 94.0 cm (46.7 in x 30.0 in x 37.0 in)
Weight: 221.4 kg (488 lbs)
Crated Weight: 312 kg (688 lbs)

Power Requirements
100–240V AC 50/60Hz, 20A, 1500W
Illumina provides a region-specific uninterruptible power supply for all HiSeq instruments.

Product Safety
CE marked and ETL listed instrument

HiSeq Systems and Accessories

	Catalog No.
HiSeq 2000 Sequencing System	SY-401-1001
HiSeq 1000 Sequencing System	SY-405-1001
HiSeq 1000 to HiSeq 2000 Upgrade	SY-405-1002
cBot Clonal Amplification System	SY-301-2002

Accelerate Your Research with HiSeq Systems

HiSeq Systems redefine the trajectory of sequencing by combining innovative engineering with proven SBS chemistry to set new standards for output, simplicity, and cost-effectiveness. With the HiSeq 2000 and HiSeq 1000, the ability to process larger numbers of samples and to decode larger and more complex genomes means that virtually any sequencing project is now within reach.

Learn More

For more information about HiSeq 2000, HiSeq 1000, and Illumina sequencing, visit www.illumina.com/systems.

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Pub. No. 770-2010-014 Current as of 02 May 2011

ILLUM-0833

illumina®

MiSeq® System

Fully integrated, next-generation sequencing ecosystem for rapid genetic analysis.

MiSeq System Highlights

- **Sequencing at the touch of a button**
  Integrated and automated system requires no intervention, eliminating potential error
- **Most rapid variant detection for time-critical studies**
  Go from DNA to data in less than 8 hours
- **Proven data quality**
  Leverages the industry's most accurate TruSeq® chemistry for the highest confidence in your data
- **Optimized for key applications**
  Adjustable read lengths and imageable area provide ultimate experimental flexibility across a broad range of applications

Introduction

The MiSeq personal sequencing system enables researchers to go from sample to analyzed data in as little as eight hours with a revolutionary workflow and unmatched accuracy. Capable of generating up to 7.0 Gb per run, MiSeq is the only next-generation sequencer that integrates amplification, sequencing, and data analysis in a single instrument with a footprint of approximately 2 feet square (Figure 1). In contrast to sequencing systems that require emulsion PCR, the MiSeq system leverages Illumina's proven TruSeq chemistry, making it the ideal platform for any lab performing rapid and cost-effective genetic analysis for the widest range of applications.

Push Button Sequencing

The MiSeq system offers the easiest next-generation sequencing workflow. Perform simple instrument operation with an intuitive touch screen interface and plug-and-play reagents with RFID tracking and automated convenience. The compact, all-in-one MiSeq platform incorporates cluster generation, paired-end fluidics, and complete data analysis, eliminating the need for auxiliary hardware and saving valuable lab bench space. Seamless data upload to the BaseSpace™ cloud environment enables unparalleled analysis, collaboration, and security.

Fastest Turnaround Time

For results in hours rather than days, the MiSeq system delivers the simplest and fastest turnaround time of any next-generation personal sequencing system (Figure 2). Prepare your sequencing library in just 90 minutes with Nextera® sample prep reagents, then move to automated clonal amplification and sequencing in as little as three and a half hours directly on the MiSeq system. On the integrated instrument computer, data analysis from quality-scored base calls to variant calling and alignment is complete in less than two hours with no user intervention.

Proven Data Quality

Based on Illumina's proven sequencing by synthesis technology, massively parallel sequencing of millions of fragments occurs by a proprietary reversible terminator–based method that detects single bases as they are incorporated into growing DNA strands. A fluorescently labeled terminator is imaged as each dNTP is added and then cleaved to allow incorporation of the next base. Since all four reversible terminator–bound dNTPs are present during each sequencing cycle, natural competition minimizes incorporation bias. Base calls are made directly from signal intensity measurements during each cycle, greatly reducing raw error rates compared to other technologies. The end result is highly accurate base-by-base sequencing that eliminates sequence context–specific errors, enabling robust base calling, even within repetitive sequence regions and homopolymers. Illumina sequencing is powered by TruSeq technology, and delivers the highest data integrity, with the highest yield of error-free reads and the most base calls above Q30.

Optimized for Key Applications

Explore the broadest range of sequencing applications. Adjustable read lengths and imageable area and the choice of single or paired-end reads allow you to match experimental needs to your time requirements. Perform rapid and cost-effective capillary electrophoresis (CE) sequencing applications, as well as highly multiplexed amplicon sequencing with TruSeq Custom Amplicon, TruSeq Custom Enrichment, small genome resequencing and *de novo* sequencing, small RNA sequencing, library QC, and 16S metagenomics studies. For current next-generation sequencing users, complete sequencing projects in a fraction of time and cost using the MiSeq system.

Figure 1: MiSeq System

Illumina's compact MiSeq system is the ideal platform for rapid, cost-effective next-generation sequencing.

Figure 2: MiSeq Workflow

The MiSeq system's revolutionary workflow enables the fastest turnaround time of any next-generation personal sequencing system.

MiSeq System Performance Parameters

Read Length	Total Time from Prepped Library through Sequencing*	Output
1 × 35 bp	3.2–3.5 hours	440–550 Mb
2 × 25 bp	4.6–5.0 hours	640–800 Mb
2 × 100 bp	14.0–16.0 hours	2.5–3.1 Gb
2 × 150 bp	20.7–24.0 hours	3.7–4.6 Gb
2 × 250 bp**	>35 hours	6.0–7.0 Gb
Reads	12.0–15.0 million clusters passing filter, and 24.0–30.0 million paired-end reads	
Performance†	>90% bases higher than Q30 at 1 × 35 bp >90% bases higher than Q30 at 2 × 25 bp >85% bases higher than Q30 at 2 × 100 bp >75% bases higher than Q30 at 2 × 150 bp	

* Includes paired-end read, if applicable.

**Performance, output, amplification, and sequencing time for 2 x 250 bp read length depends on instrument upgrade, commercially available in the third quarter of 2012. Customers will be notified of upgrade availability. Upgrade dates are subject to change.

†The percentage of bases >Q30 is averaged across the entire run, not on a per-read or per-cycle basis.

Ordering Information

	Catalog No.
MiSeq system	SY-410-1001

Learn More

Go to www.illumina.com/miseq to learn more about the next revolution in personal sequencing.

MiSeq System Specifications

Instrument Configuration
RFID tracking for consumables
MiSeq Control Software
MiSeq Reporter Software

Instrument Control Computer (Internal)*
Base Unit: Intel Core i7-2710GE 2.10 GHz CPU
Memory: 16 GB RAM
Hard Drive: 750 GB
Operating System: Windows 7 embedded standard
*Computer specifications are subject to change.

Operating Environment
Temperature: 22°C ± 3°C
Humidity: Non-condensing 20%–80%
Altitude: Less than 2,000 m (6,500 ft)
Air Quality: Pollution degree rating of II
Ventilation: Maximum of 1,364 BTU/h
For Indoor Use Only

Light Emitting Diode (LED)
530 nm, 660 nm

Dimensions
WxDxH: 68.6 cm x 56.5 cm x 52.3 cm (27.0 in x 22.2 in x 20.6 in)
Weight: 54.5 kg (120 lbs)
Crated Weight: 90.9 kg (200 lbs)

Power Requirements
100–240V AC @ 50/60Hz, 10A, 400W

Radio Frequency Identifier (RFID)
Frequency: 13.56 MHz
Power: 100 mW

Product Safety and Compliance
NRTL certified IEC 61010-1
CE marked
FCC/IC approved

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ILLUM-0835

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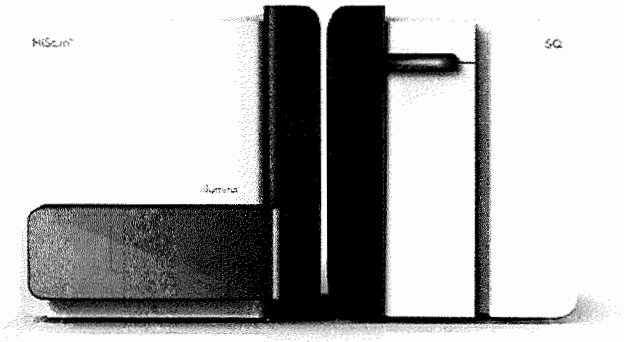

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Read about BeadArray Technology »

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Innovative technologies
At Illumina, our goal is to apply innovative technologies and revolutionary assays to the analysis of genetic variation and function, making studies possible that were not even imaginable just a few years ago. These studies will help make the realization of personalized medicine possible. With such rapid advances in technology taking place, it is mission critical to have solutions that are not only innovative, but flexible, scalable, and complete with industry-leading support and service. As a global company that places high value on collaborative interactions, rapid delivery of solutions, and prioritizing the needs of its customers, we strive to meet this challenge. Illumina's innovative, array-based solutions for DNA, RNA, and protein analysis serve as tools for disease research, drug development, and the development of molecular tests in the clinic.

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Eco

The Eco Real-Time PCR System

With the Eco system, Real-Time PCR technology is now within reach o individual researchers. Large, expensive thermal cyclers that take up a entire workspace are replaced with an affordable, compact system an Netbook computer that fit easily in any lab. Delivering unsurpassed da quality for 40-cycle runs in as little as 40 minutes, the Eco system revolutionizes qPCR accessibility for both new and experienced Real-Ti PCR users.

Sign up for a risk-free 7-day trial to evaluate the Eco in your lab

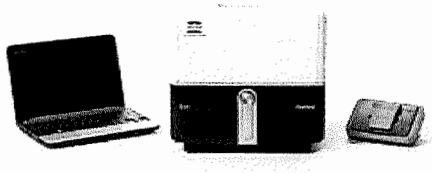
Free 7-Day Trial

Full-Featured, Open Platform

- Delivers high-precision (< 0.167 SD Cq)
- Provides sensitive fluorescence detection down to a single copy
- Delivers ±0.1°C well-to-well uniformity
- Supports most popular real-time PCR chemistries (calibrated for SYBR, FAM, HEX, VIC, ROX, and Cy5 dyes
- Real-time applications include:
  - ✓ Absolute quantification by standard curve
  - ✓ Relative quantification using ΔΔCq method with support for multiple reference gene normalization
  - ✓ Allelic discrimination by end-point fluorescence
  - ✓ SNP genotyping, mutation screening and methylation analysis by High-Resolution Melt (HRM) curve analysis

Learn about the Science »

High-performance Real-Time PCR System includes:



- Eco instrument
- Netbook computer pre-installed with Eco software and HRM module
- USB flash drive with Eco software
- Eco sample loading dock
- Starter pack of 10 plates, 40 seals, and one Evaluation Kit

US Price: **Only $13,900.00!**

Please select: ORDER NOW

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Specifications

ILLUM-0838

Instrument	
Thermal system	Single Peltier-based system

Block format	48-well block
Consumables	48-well Eco plates and optical Eco adhesive seals
Accessories	Eco sample loading dock
Sample volumes	5–20µl validated (optimized for standard 20µl protocols)
Average block ramp rate	5.5°C/sec
Temperature range	35–100°C
Temperature uniformity	± 0.1°C
Optical system	LED excitation (452–486 nm and 542–582 nm), four emission filters (505–545 nm, 562–596 nm, 604–644 nm, and 6€ 705 nm) and CCD camera
Calibrated dyes at shipment	SYBR, FAM, HEX, ROX, Cy5: factory-calibrated. Additional dyes within wavelength range of Eco filters are supported w no additional calibration required for implementation
Data collection	Data collected in all four filters for all wells regardless of plate setup; plate setup for data analysis can be altered aft run completion. Melt curve analysis supports continuous data acquisition in a single channel, providing increased data point collectior and reduced run times
Real-Time PCR run time (40 cycles)	Less than 40 minutes
Electrical	Voltage: 120VAC=10% Nominal current draw: 8A Frequency: 50/60 Hz=1% Peak Power 500VA, typical power is 180VA
Software	Eco System Software supports all chemistries and a variety of applications, including absolute quantification, relative quantification, allelic discrimination, and high resolution melt curve analysis (HRM)
Warranty	12-month warranty (includes parts and labor)

Instrument Physical

Instrument dimensions	12.6" closed (height) 14.5" open (height) 13.6" (depth) 12.2" (width) 32 cm closed (height) 36.8 cm open (height) 34.5 cm (depth) 31 cm (width)
Weight	30 lbs (13.6 Kg)

Performance

Sensitivity	1 copy
Dynamic range	9 logs linear range
Precision	Discriminates 5,000 and 10,000 template copies with 99% confidence

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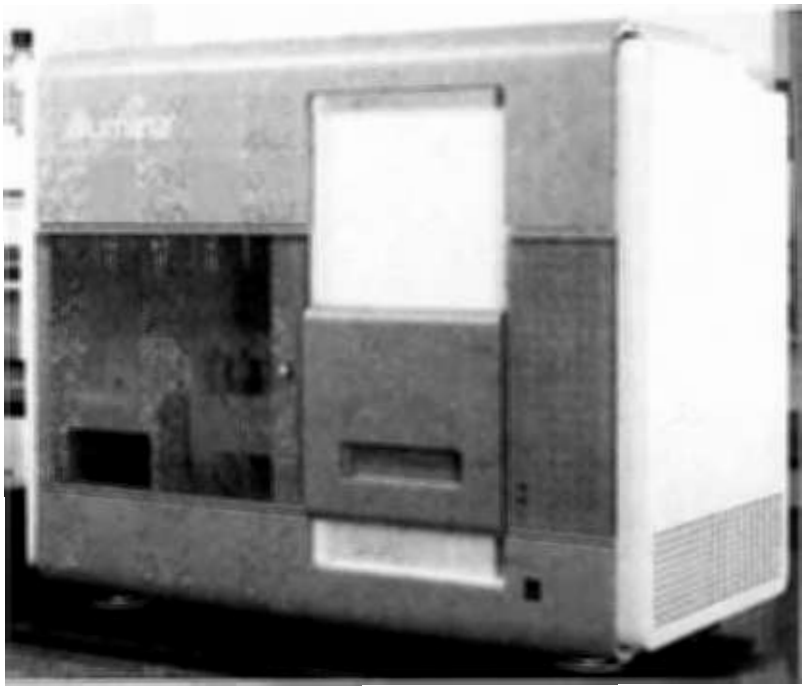
ILLUM-0840



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making sense out of life

genotyping

SNP (single nucleotide polymorphism) genotyping is the process of determining which point mutations are present in each of the two copies of a gene or other portion of DNA sequence within a human or model organism. The use of genotyping analysis to obtain meaningful statistics on the impact of a single SNP or set of SNPs on individuals and population segments will require billions of tests or assays. Test scales may require, for example, 100,000 assays per individual for 1000 or more individuals involved in typical clinical trial.

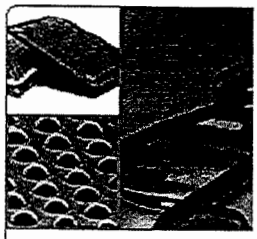
Large-scale SNP genotyping, when commercially feasible, will be used for a variety of applications, including genomics-based drug development, clinical trial analysis, disease predisposition testing, and disease diagnosis. SNP genotyping can also be used outside of healthcare, for example in the selection and breeding of plants and animals with desirable commercial characteristics. These markets will require billions of SNP genotyping assays.

Our First Offerings

Illumina has partnered with Applera's Applied Biosystems Group to develop integrated solutions for high throughput SNP genotyping. The offering will include disposable Bead Array cassettes, reagent kits, instruments and related software.

SNP Genotyping Services

Our BeadArray™ platform and an advanced LIMS environment provide high throughput, accuracy and control to lower your genotyping cost per call. [More information]



Illumina is developing a high-t
SNP genotyping application.

NEWS & HIGHLIGHT

Interested in high-volume supply of oligonucleotides?

We're always looking for qualified p

Background on genetic variation

OLIGATOR™

CUSTOM DNA SYNTHESIS

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products & services

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  - fasttrack genotyping services
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services: genomic services with solexa sequencing technology

Even without a platform commitment, you can leverage the power of Solexa sequencing technology through our Illumina's Genomic Services. With years of experience delivering high-quality service, we offer a range of consultative and analytical capabilities, which can be tailored to meet your needs. Our proven track record of successfully executing high-value projects, and the access we provide to a team of seasoned professionals, will make using sequencing-by-synthesis technology convenient and affordable. Rely on Illumina's Genomics Services group to design and complete your projects in record time and at costs that no other technology can match.

applications offered

- Candidate gene and region resequencing
- Bacterial DNA resequencing
- Digital expression profiling
- Small RNA discovery

If your application of interest does not appear on the list, please contact us. We can often work with you to design the appropriate protocols and processes to handle your application.

The Genomics Services group can provide you with assistance across your entire workflow:

- Consultation on experimental design
- Sample preparation and QC
- Cluster generation
- Sequencing-by-synthesis using the Illumina Genome Analyzer
- Data analysis and bioinformatics consultation

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San Diego, CA 92121 USA

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Patent Numbers: 7,057,026, 7,414,116, 7,427,673, 7,541,444, 7,592,435

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genetic energy™ inside


VeraCode® Universal Bead Set-5632
VC-910-5632
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6 x 96 Samples
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Whole-Genome DASL® HT DAP- 24 Sample

BAG.DAP WG-DASL HT,HT12,v4,24

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Whole-Genome DASL® Assay Kit (96-Sample)

BOX.WG-DASL w/UDG, PRE.1 MCS3, 96

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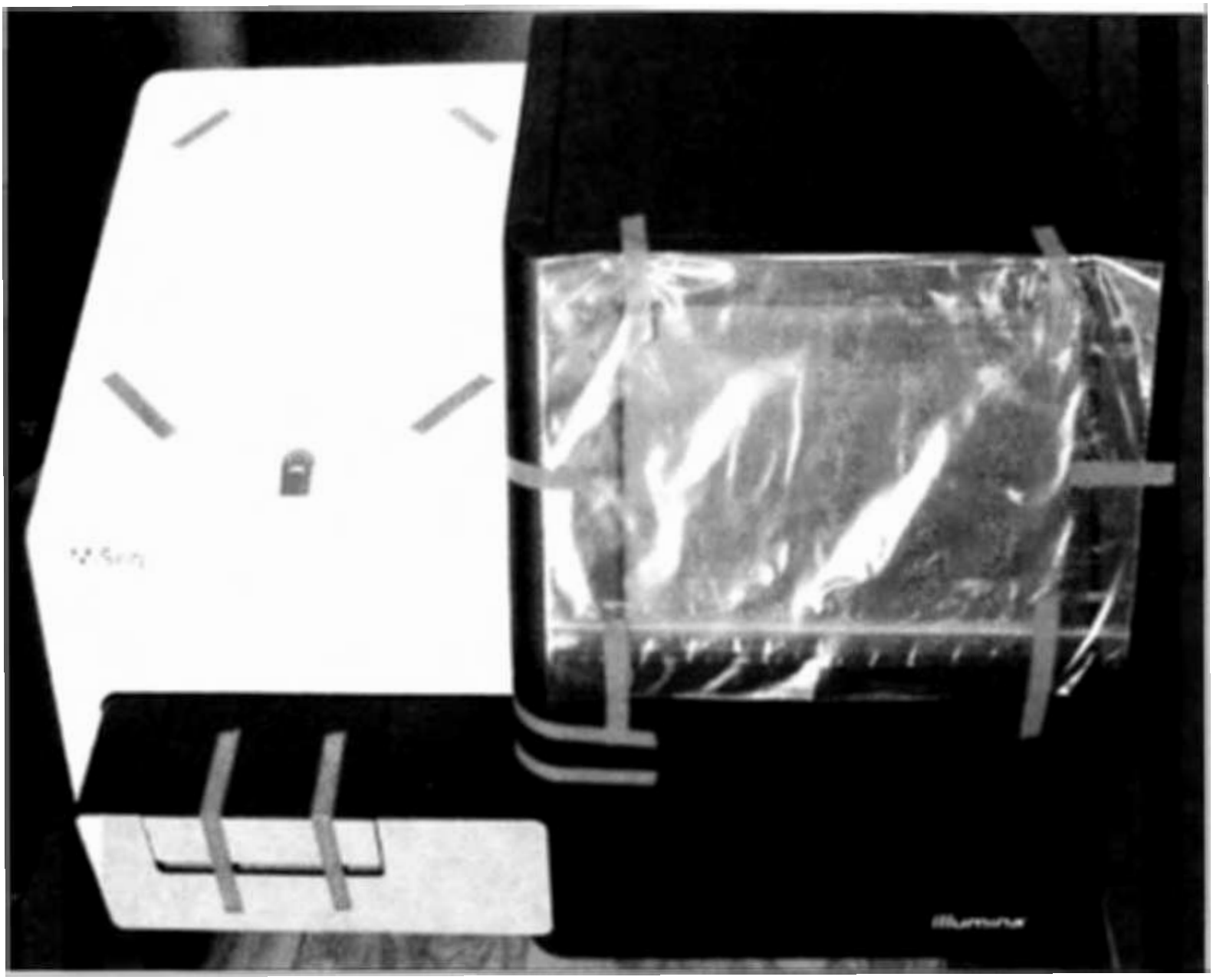
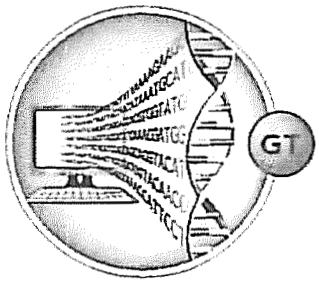


GenomeStudio™ Genotyping Module v1.0 Application & Documentation

Part # 11319324



CONTENTS

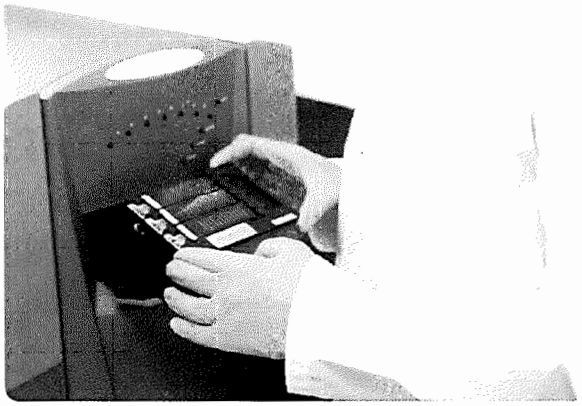
illumina®

Illumina® FastTrack Genotyping Services

Experience personalized service, industry-leading data quality, and guaranteed turnaround time with Illumina's FastTrack Genotyping Services for a wide range of SNP genotyping projects.

"Overall, our experience working with Illumina has been simply outstanding. The scientific and service staff of this organization are highly talented and committed individuals... The staff of Illumina went well beyond the normal service requirement in order to maximize information yield on these samples."

—PETER K. GREGERSON, M.D., Center Head, The Robert S. Boas Center for Genomics and Human Genetics



At Illumina, we work collaboratively with you to achieve your research objectives. Using Illumina's cutting-edge SNP genotyping technology, our in-house geneticists have consistently provided on-time, reliable genotyping services to academic and pharmaceutical customers since 2002. In collaboration with our customers, we have provided data for the study of many diseases through services projects, from various cancers to diabetes and schizophrenia. Using Illumina's FastTrack Services gives you the same competitive advantages as our installed base of customers: the ability to conduct whole-genome association studies, DNA copy number studies, linkage analysis, and fine mapping studies in a timely fashion at a reasonable cost.

In addition to the benefits you can realize by outsourcing your discovery efforts, you will also appreciate the professional design assistance and collaborative approach Illumina has proudly delivered since program inception. We highly value the quality outcome of your projects as much as your experience working with us.

KEY HIGHLIGHTS OF PAST PERFORMANCE

- **Infinium® Service Projects:**
  Sample Success Rate: 99.5%
  Call Rate: 99.89%
- **GoldenGate® Service Projects:**
  DNA Success Rate: 97.6%
  Call Rate: 99.75%

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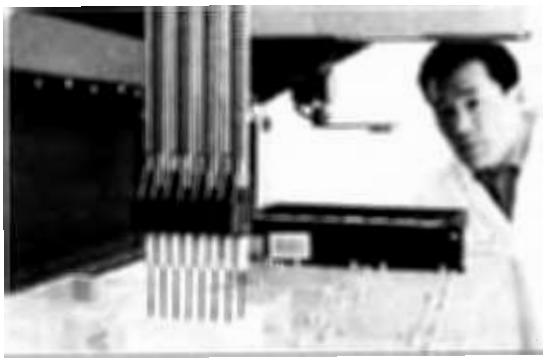
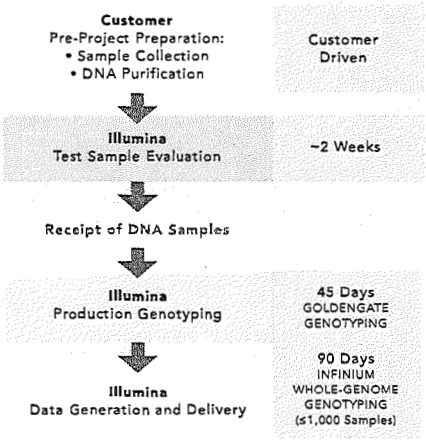
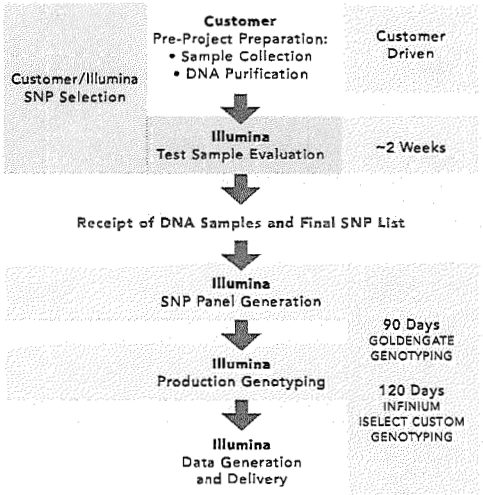


STANDARD PANEL GENOTYPING PROJECT TIMELINE



CUSTOM PANEL GENOTYPING PROJECT TIMELINE



PERSONALIZED SERVICE WITH DEDICATED EXPERTS

- An expert molecular geneticist project manager assigned to each project
- Project completion and success ensured with guaranteed fast delivery
- Intensive customer engagement with proven process flow driven by best practices
- Each project dataset reviewed and QC'd by the services group
- Every sample and every SNP locus assigned a quality score
- Streamlined custom SNP selection from an up-to-date database of >1 million validated SNP markers
- Final annotated SNP lists specified with expected assay conversion rates

RELIABLE, PROVEN, FAST, AND ROBUST PROCESS

- Over 200 projects between 2002 and 2006, all delivered on time
- Guaranteed delivery date, with average study turnaround time <90 days
- Over 200,000 DNA samples genotyped, with nearly 100% success
- World-class Illumina BeadLab environment capable of generating over 75 million genotypes per day
- Expertise with large datasets—over 1 billion genotypes delivered for a single customer project
- Fully integrated custom Laboratory Information Management System (LIMS) tracking from sample input to data output and analysis
- Barcoded plates sent to customers to ensure accurate sample tracking
- Streamlined process for safe and secure dry ice sample shipment

INDUSTRY-LEADING DATA QUALITY

- Consistently impressive results from best-performing genotyping products, quality-driven processes, and professional expertise
- Maximal information value at every locus
- Illumina control samples included on every sample plate for extensive real-time QC and data review in LIMS environment
- Low sample input requirements

COMPREHENSIVE STUDY TYPES

- Industry's most flexible and comprehensive portfolio with Infinium and GoldenGate assays
- Standard and custom content
- Whole-genome and fine mapping studies
- Scalable multiplex levels—from 384 custom SNPs to 1 million standard SNPs per assay
- Wide sample size range—from 300 to several thousand
- Tag SNP selection available for any combination of the four HapMap populations
- All organisms supported; extensive experience with organisms such as human, cow, pig, chicken, mouse, dog, and corn
- Seamless transition to follow-on projects—from Infinium Whole-Genome Genotyping to iSelect Custom Genotyping, and then to targeted panels with Custom GoldenGate Genotyping—all with the same trusted team, quality data, and LIMS-driven process

SUMMARY

Take advantage of Illumina's full menu of FastTrack Genotyping Services. Our highly experienced FastTrack Project Managers are committed to working collaboratively with you from beginning to end, to ensure the highest quality data and fast turnaround. Enjoy the benefits of innovative technologies and personalized service from the genotyping market leader.

INFINIUM WHOLE-GENOME GENOTYPING PAST PERFORMANCE*

(Based on all contracts between January and September 2006 >11,500 BeadChips and 3.5 billion genotypes)

Infinium Service Projects	Average
Sample Success Rate	99.47%
Locus Success Rate	99.11%
Call Rate	99.89%
Reproducibility	99.99%
Heritability (Trios)	99.98%

* Performance for individual studies varies and depends on the DNA quality of the samples submitted and the quality of the SNPs selected

GOLDENGATE PAST PERFORMANCE*

Based on all contracts between January 2005 and June 2006 (>150,000 individual DNA samples from 100 projects)

GoldenGate Service Projects	Average
Custom Assay Development Success	
- Human only	92.8%
- All species	91.2%
DNA Success Rate	97.6%
Call Rate	99.75%
Reproducibility	>99.99%
Heritability	>99.99%

* Performance for individual studies varies and depends on the DNA quality of the samples submitted and the quality of the SNPs selected

NUMBER OF LOCI ASSAYED AND TURNAROUND TIME REQUIRED FOR FASTTRACK GENOTYPING SERVICES TO PROCESS STANDARD AND CUSTOM PANELS

Standard Panels	Number of Loci	Guaranteed Turnaround Time
GoldenGate Genotyping	~30–6000	45 days[1]
Infinium Whole-Genome Genotyping	300,000–1,000,000	90 days[1,2]
Custom Panels		
Custom GoldenGate Genotyping	384–8,000+	90 days[3]
Infinium iSelect™ Custom Genotyping	7,600–60,800	120 days[3]
Infinium Semi-Custom HumanHap300-Duo+ Genotyping	7,600–60,800[4]	120 days[2,3]
Infinium Semi-Custom HumanHap550+ Genotyping	7,600–121,600[5]	120 days[2,3]

[1] From DNA sample submission
[2] For up to 1,000 samples
[3] From date of final SNP list and DNA sample submission
[4] Add 7,600–60,800 custom loci to standard 300,000 loci per sample
[5] Add 7,600–121,600 custom loci to standard 550,000 loci

ORDERING INFORMATION

FASTTRACK GENOTYPING SERVICES STANDARD PANEL PROJECTS

CATALOG #	PRODUCT	Number of Loci	DNA Required per Sample (µg)	Volume Required per Sample (µl)
	Infinium Whole-Genome Genotyping Standard Panel Service Project			
FT-20-101	HumanHap300-Duo Genotyping BeadChip	>300,000	3	60
FT-20-102	HumanHap240S-Duo Genotyping BeadChip	>240,000	3	60
FT-20-104	HumanHap550 Genotyping BeadChip	>550,000	3	60
FT-20-105	HumanHap650Y Genotyping BeadChip	>650,000	3	60
FT-20-106	HumanHap450S DNA Analysis BeadChip	>450,000	3	60
FT-20-107	Human1M DNA Analysis BeadChip	>1,000,000	3	60
FT-20-108	HumanCNV370-Duo DNA Analysis BeadChip	>370,000	3	60
FT-20-111	HumanLinkage-12 DNA Analysis BeadChip	>6,000	1.5	30
FT-20-109[6]	BovineSNP50 Genotyping BeadChip	>50,000	1.5	30
FT-20-110[6]	CanineSNP20 Genotyping BeadChip	>20,000	1.5	30
FT-20-113[6]	CVDSNP60 Genotyping BeadChip	>60,000	1.5	30
FT-10-101	**GoldenGate Genotyping Standard Panel Service Project**			
	Linkage V Panel	6,056	4	80
	Mouse LD Linkage	377	2	40
	Mouse MD Linkage	1,449	2	40
	MHC Panel Set	2,360	4	80
	MHC Mapping Panel	1,293	2	40
	MHC Exon-Centric Panel	1,228	2	40
	Cancer SNP Panel	1,421	2	40

[6]These products are currently available for ordering, but will not be in use until late 2007

FASTTRACK GENOTYPING SERVICES CUSTOM PANEL PROJECTS

CATALOG #	PRODUCT	Number of Loci	DNA Required per Sample (µg)	Volume Required per Sample (µl)
FT-15-101	**Custom GoldenGate Genotyping Project**	up to 1,536	2	40
		1,632–4,608	4	80
		4,704–9,216	6	120
FT-25-101	**Infinium iSelect Custom Genotyping Project**	7,600–60,800	1.5	30
FT-25-102	**Infinum Semi-Custom HumanHap300-Duo+ Genotyping Project**	7,600–60,800[7]	3	60
FT-25-103	**Infinium Semi-Custom HumanHap550+ Genotyping Project**	7,600–121,600[8]	3	60

[7]Add 7,600–60,800 custom loci to the standard 300,000 loci per sample on the HumanHap300-Duo Genotyping BeadChip
[8]Add 7,600–121,600 custom loci to the standard 550,000 loci on the HumanHap550 Genotyping BeadChip

ADDITIONAL INFORMATION

Please visit www.illumina.com

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San Diego, CA 92121-1975
1.800.809.4566 (toll free)
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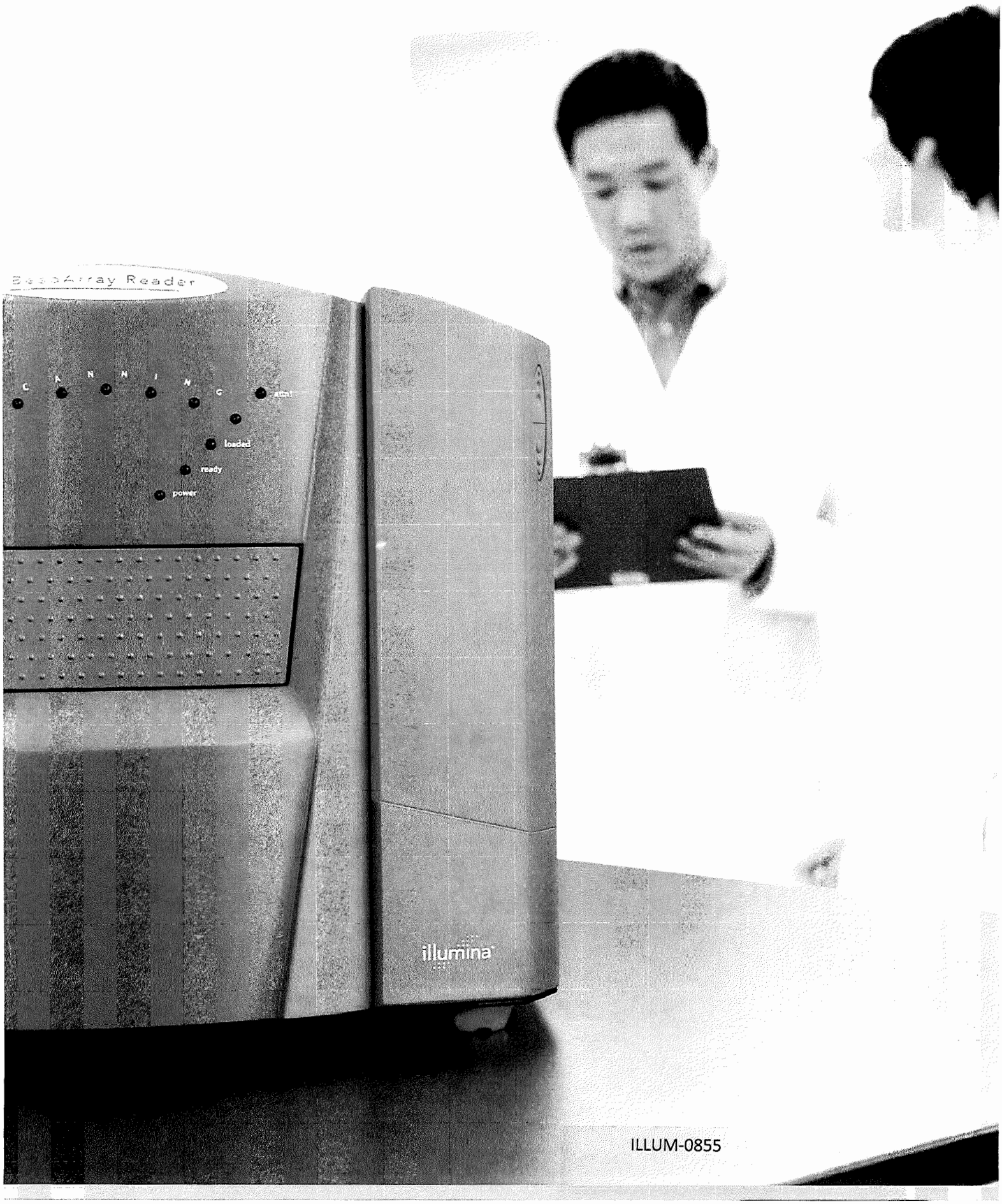
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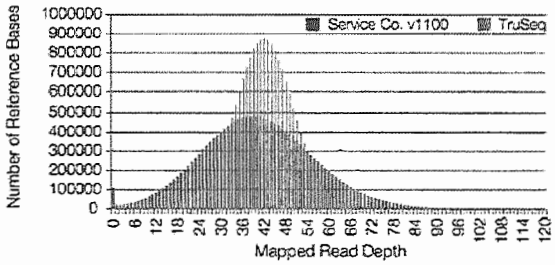


The Illumina Genome Network

The Illumina Genome Network links researchers interested in conducting large whole human genome sequencing projects with leading institutes worldwide that provide highly economical and rapid turnaround access to Illumina sequencing. Consisting of CSPro-certified organizations with proven expertise in generating high-quality, economical human genome data, the Illumina Genome Network enables researchers to complete their genome sequencing projects rapidly and confidently. Highest quality data with fast turnaround times: that is the promise of the Illumina Genome Network.

Entrust your study to some of the most recognized names in sequencing, all of whom rely upon the trusted and proven Illumina technology platform. Leverage their expertise to get fast access to comprehensive whole-genome assemblies, including:

- High quality variant calling of single nucleotide polymorphisms (SNPs) and insertions and deletions (Indels)
- Ability to identify Copy Number Variations (CNV) and other structural rearrangements
- Access to a comprehensive set of in-house and third-party analysis tools designed to support the system with the largest installed base in the industry
- Ability to reanalyze data sets over time

You can choose your Illumina Genome Network partner and create service packages based on your individual study requirements. Flexible turnaround times and a range of value-added services are available to meet the unique needs of every study. It's a quick and reliable way to get your sequencing study started on the Illumina sequencing technology platform.

GET A QUOTE

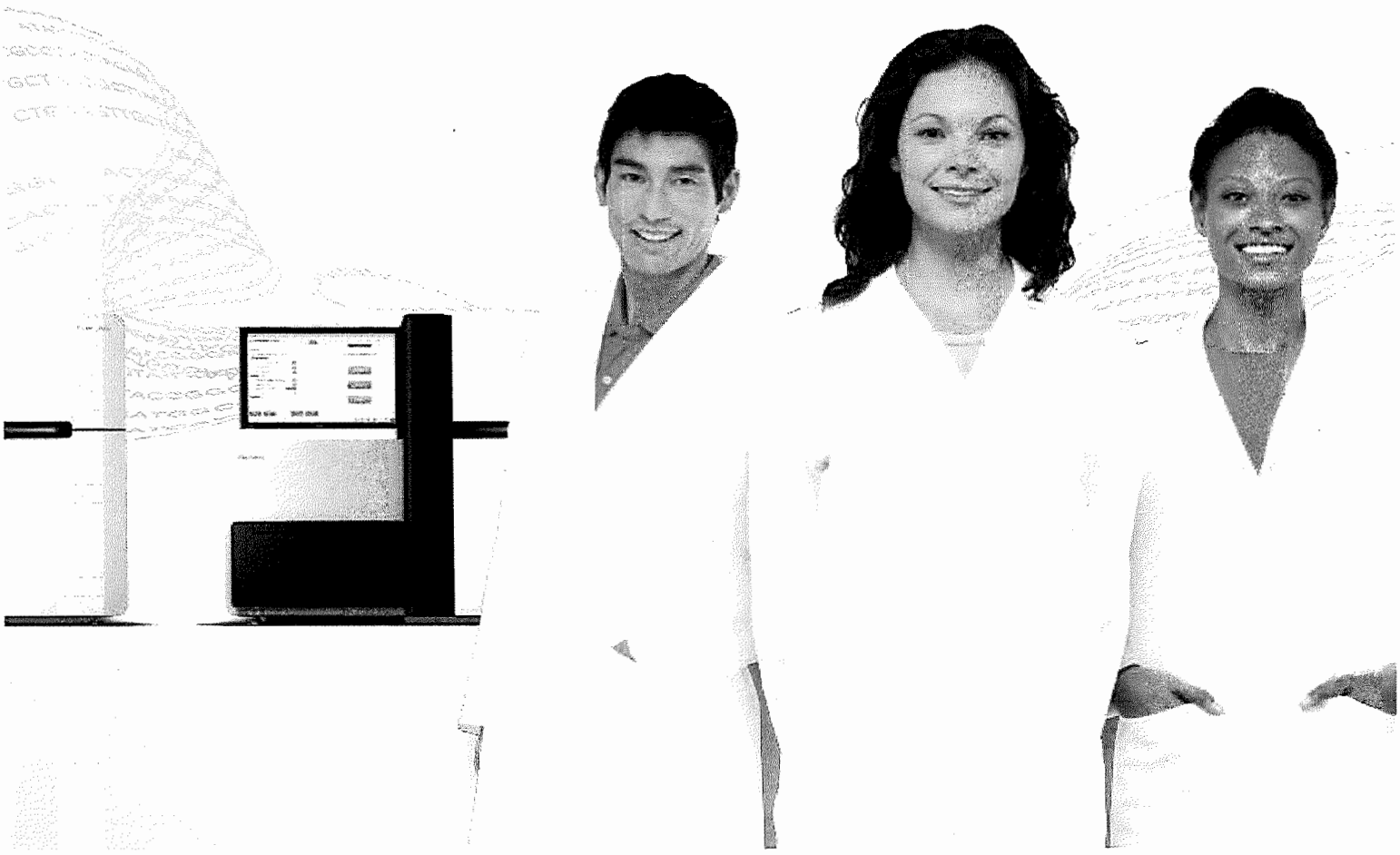
Whole Human Genome Sequencing Services Brochure
Illumina Genome Network Data Sheet
Technical Note-Leveraging Whole Human Genome Sequencing in Cancer

Protein Analysis	Software	Illumina Connect	Eco Real-Time PCR Support	in Supply Chain
Real-Time PCR	BaseSpace		Customer Service	
Agrigenomics			Training	
Cytogenetics				
Cancer Genomics				

Innovative technologies
At Illumina, our goal is to apply innovative technologies and revolutionary assays to the analysis of genetic variation and function, making studies possible that were not even imaginable just a few years ago. These studies will help make the realization of personalized medicine possible. With such rapid advances in technology taking place, it is mission critical to have solutions that are not only innovative, but flexible, scalable, and complete with industry-leading support and service. As a global company that places high value on collaborative interactions, rapid delivery of solutions, and prioritizing the needs of its customers, we strive to meet this challenge. Illumina's innovative, array-based solutions for DNA, RNA, and protein analysis serve as tools for disease research, drug development, and the development of molecular tests in the clinic.

Whole human genome sequencing services.

Powered by TruSeq®.

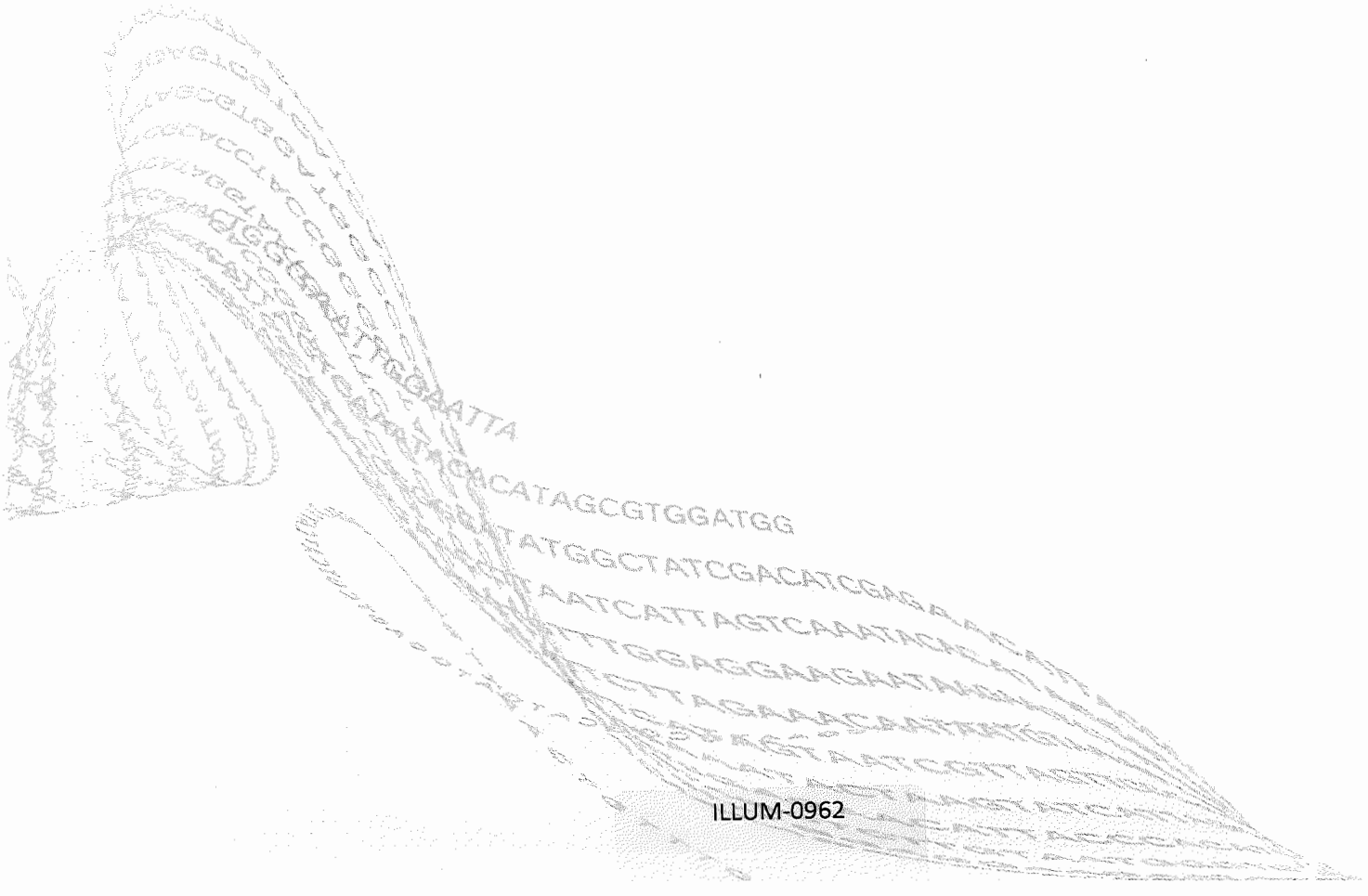


illumina®

Now is the time to take your research further. Faster.

As whole human genome sequencing becomes more accessible, the ability to study the entire genome accelerates opportunities for discovery. Fueling a new generation of genomic studies.

Only Illumina offers access to the most accurate, most complete whole human genome sequencing data. Giving you the clearest picture of the genome. Empowering your research like never before.



The only complete research solution.

You've got the samples, but not the dedicated resources or time. You need an experienced service partner to perform whole human genome sequencing to advance your studies.

Illumina offers the only end-to-end research solution, with guaranteed access to industry-leading TruSeq technology through our sequencing platforms, network of partners, and our own FastTrack Services. From discovery to validation, we provide support for every step of your project.

Once your whole human genome sequencing project is complete, we'll help you with follow-on studies. Whether it's targeted exome sequencing, SNP discovery, or RNA-Seq, you'll get the in-depth genomic information you need to accelerate your research.

And since your data will be delivered in the format most compatible with popular analysis tools, you can easily continue with any secondary studies of your own.

Our network of partners with one focus—to perform whole human genome sequencing projects on Illumina systems.

Our CLIA-approved and CAP-accredited in-house services, offering sequencing and genotyping.

Certified service labs producing validated Illumina data.

Whole human genome sequencing services. Without compromise.

When you use the Illumina Genome Network, you get the highest data quality with the fastest turnaround, to decrease your time-to-publish. All of your data is delivered in industry-standard format to streamline collaborations and allow integrated follow-on studies. And everything is completed at a competitive price, so you can sequence more samples for less.

The Illumina Genome Network delivers the following key analysis results and metrics:

- **Sequence data:** Aligned and non-aligned reads in archival BAM format
- **Variant information:** SNP, indel, CNV, and SV (e.g., large insertion, large deletion) variant calls in VCF format
- **Sample report:** Summary of sample and genome quality metrics in PDF format
- **SNP concordance:** All genotyping and WGS data files are provided (Figure 1)

Greater confidence in results.

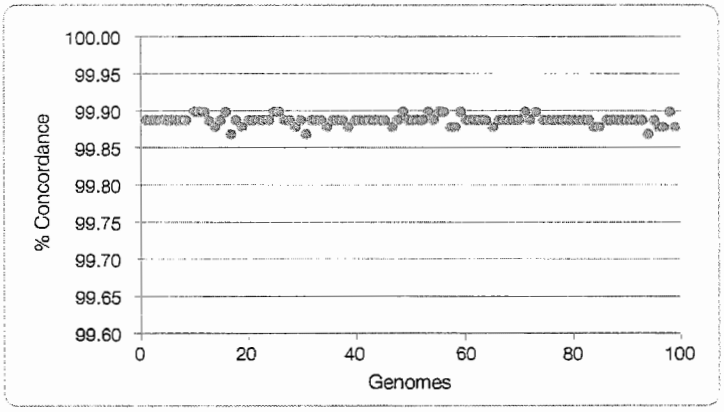


Figure 1. Independent confirmation with HumanOmni 2.5 BeadChip shows SNP concordance > 99% for every sample.

Proven TruSeq technology. Most accurate genome at any coverage.

Illumina platforms make up the largest installed base of next-generation sequencing systems worldwide—referenced in over 2,100 peer-reviewed publications, and counting. They're the most trusted and widely adopted for a reason: our proven TruSeq technology, delivering the highest data accuracy in the industry for variant calling (Figure 2).

Whole-genome sequencing involves more than obtaining high coverage depth and quality reads. That's why we run each base pair through a usable genome test (Figure 3), resulting in the highest callable genome with quality scores of Q30 or more on > 80% of all reads passing filter. This holds true even within the difficult-to-sequence regions of the genome.

Highest accuracy. More usable data.

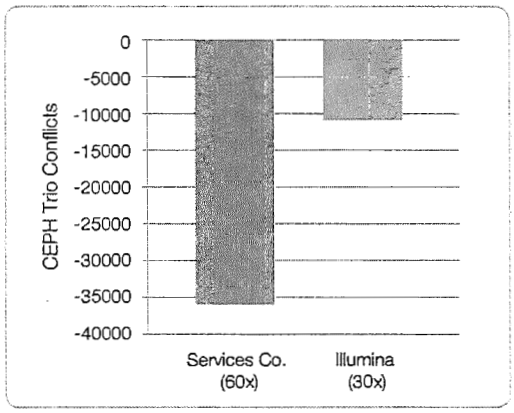


Figure 2. Services Co. data contains over 35,000 consensus conflicts or errors within the genome.

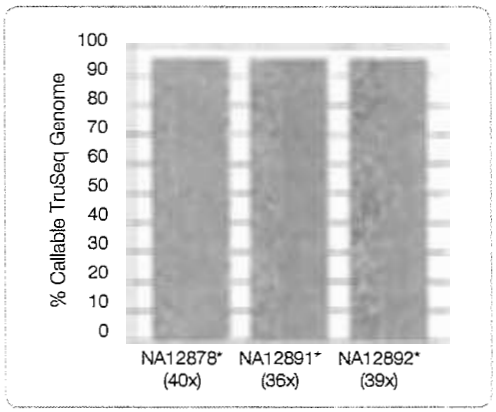


Figure 3. More usable data: > 95% of the NCBI reference genome.

*Sequencing performed on an Illumina HiSeq system.

Guaranteed access to the highest quality data.

It's easy to secure the most accurate, research-ready data that meets your needs, budget, and timelines. Whether you own an Illumina system or use our sequencing services, your research will always be powered by TruSeq.

TruSeq

Accessing the TruSeq genome.

HiSeq® systems—used for the largest and most complex sequencing studies.

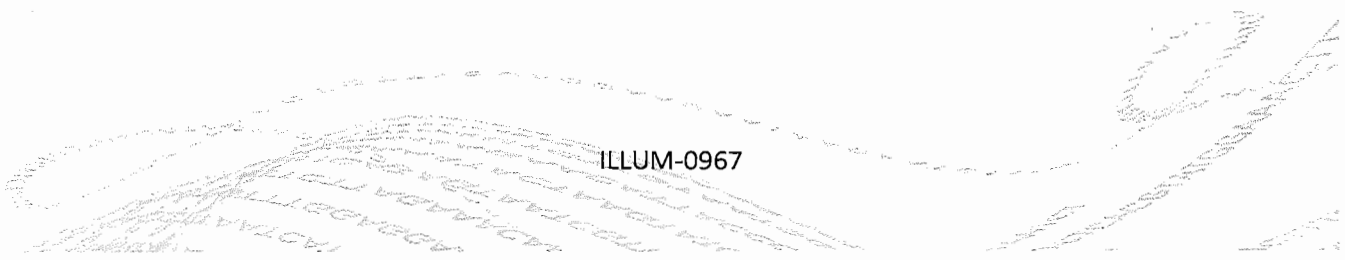
Whole human genome sequencing service.

Illumina sequencing and genotyping services.

Certified service labs producing validated Illumina data.

Perform your next whole human genome sequencing study with Illumina.

Learn more at
www.illumina.com/WGS



Illumina Genome Network

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www.illumina.com

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ILLUM-0968

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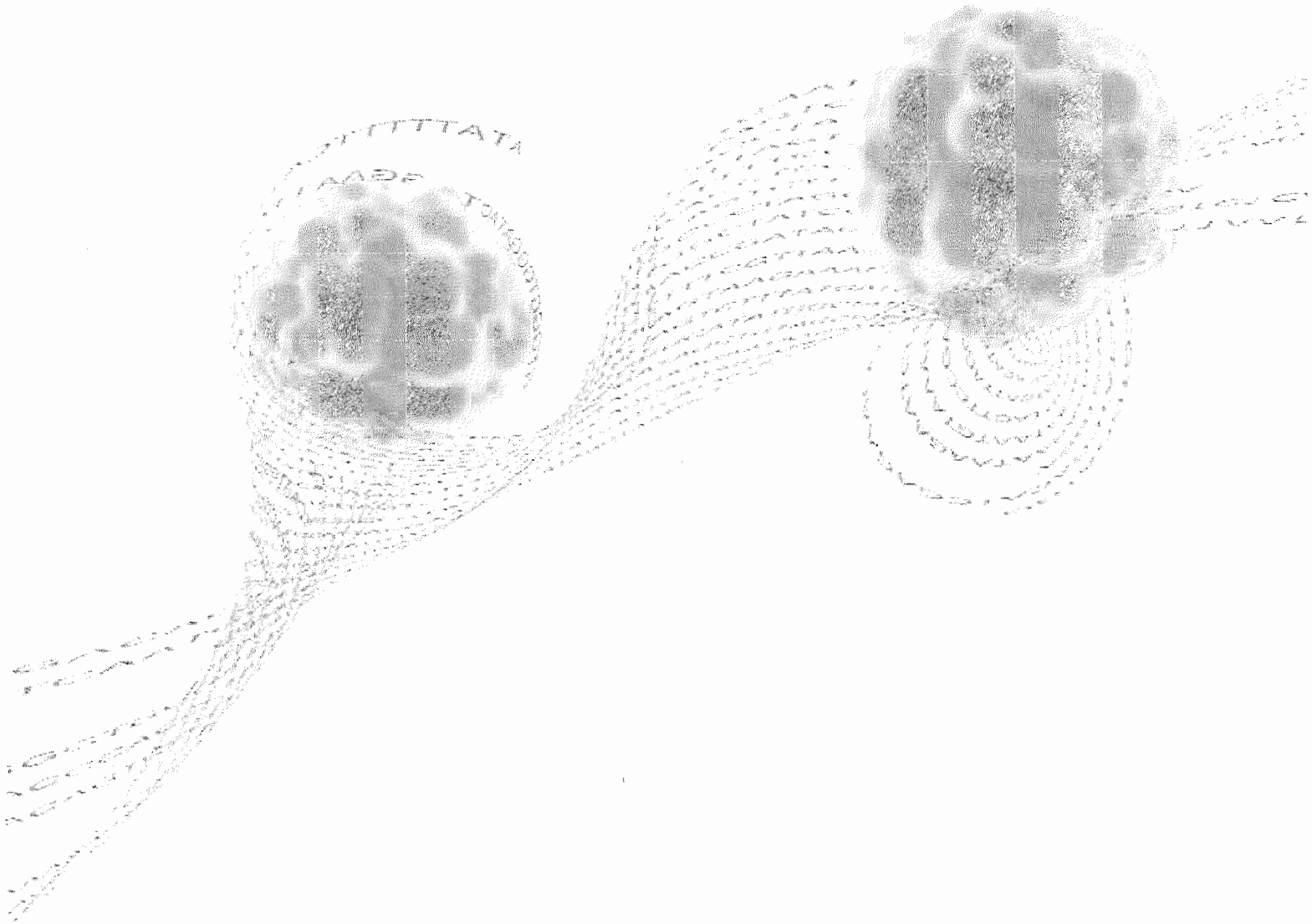
Cancer Genomics

Transforming our understanding of cancer



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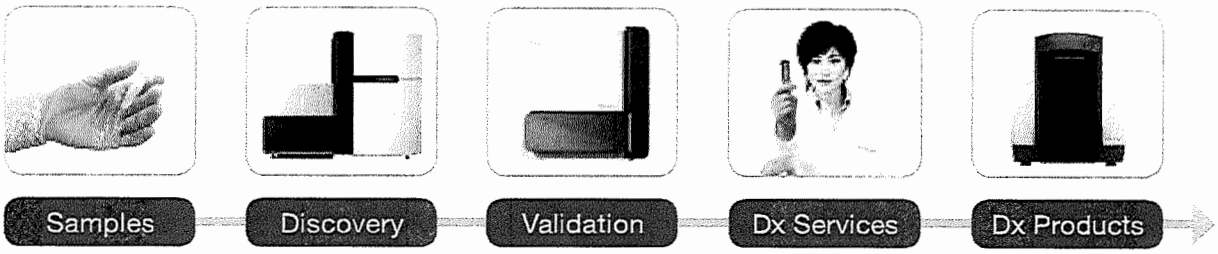
ILLUM-0969

Accelerating translational medicine.

Technology enhances understanding. Drives discovery.

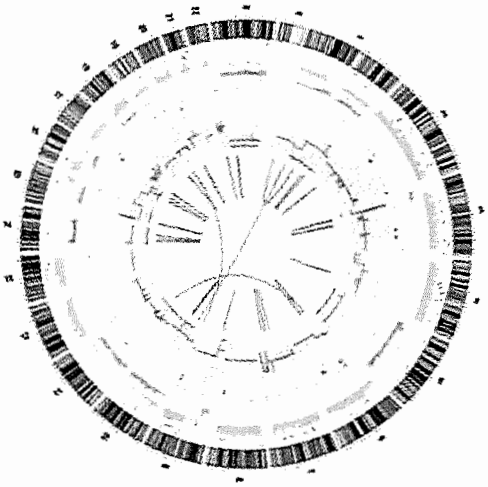


Illumina's cancer discovery initiative.

Our belief in the power of Illumina technology is so strong that we work side by side with researchers to obtain samples for our cancer discovery work. Using whole-genome sequencing, we are exploring how biomarker discovery can lead to early detection, resistance to therapy, and prognosis in ovarian, gastric, and colorectal cancer. Discovering how analyzing subtle changes in genes and chromosomes will change diagnostics forever. Ultimately leading to novel diagnostic services and products as shown in the continuum above.

Illumina's clinical services lab.

Innovative. Comprehensive. The first choice for doctor-ordered Individual Genome Sequencing services. The first to generate a complete human sequence in a clinical laboratory. Fully CLIA-certified and CAP-accredited for high-complexity molecular testing.



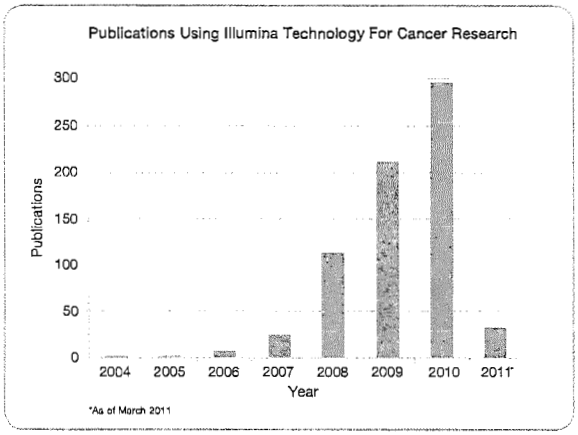
When taking a genome-wide approach to cancer, researchers can use a circus plot to visualize the extensive rearrangements and variations that are common to cancer. This plot shows variations found in a melanoma cell line, marking each chromosome on the outside ring, then showing validated indels, density of substitutions, coding substitutions, copy number variants, loss of heterozygosity, to reveal the intrachromosomal and interchromosomal structural variants in the middle of the plot

Empowering cancer research.

Sequencing. Microarrays. Real-time PCR. Technology is fueling a new era of cancer discovery and validation.

The growing Illumina community is a part of this revolution. Taking advantage of simplified workflows and streamlined platforms. Advancing research. Increasing our understanding. Publishing results.

The Illumina community is discovering more. Publishing more.



2008

- First publication describing whole-genome sequencing on human cancer[1]
- Accurate human whole-genome sequencing using reversible terminator chemistry[2]

2009

- Demonstrates the power of second-generation transcriptome sequencing for identifying rearrangements in coding genes[3]
- The largest collection of samples (24) for a single cancer type to be whole-genome sequenced, documenting large sample-to-sample variability[4]

2010

- Next-generation sequencing technology provides new insights into the mechanisms of cancer progression and a greater understanding of diagnosis and treatment options[5-7]

2011

- Discovery of causative gene mutations for a rare skin cancer condition[9]

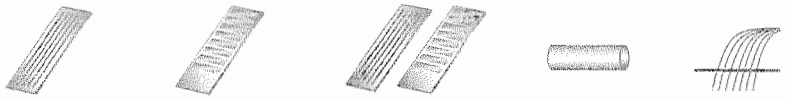
Transforming diagnostics.

New technologies. New discoveries. New hope. With innovation, insight, and commitment, the Illumina community is leading the way toward a brighter future in cancer diagnostics, therapy, and personalized treatment.

- New developments provide hope for earlier detection and better prognoses
- Novel biomarkers may lead to future treatments tailored to an individual's genetic disposition
- Individual Genome Sequencing services provide genetic information that will facilitate clinical decision making in cancer and medicine

Learn more about Illumina at
www.illumina.com/cancer

Comprehensive cancer research portfolio.



	Next-Gen Sequencing	Next-Gen Genotyping	Sequencing + Arrays	Multiplexed Analysis	Real-Time PCR
Find Structural Variation					
CNV Screening	■	+	+		•
CNV Discovery	■	+	+		
Detect Chromosomal Rearrangements					
Breakpoint Mapping	■		■		
Insertions, Deletions, and Translocations	■	+	+	+	•
Characterize Epigenetic Changes					
DNA Methylation Biomarker Panels		•	•	+	•
DNA Methylation Discovery	■		■		
ChIP-Sequencing (DNA-Protein Binding)	•		•		
Changes in Transcription Factor and Histone Binding	•		•		
Identify Variants in Gene Regions					
Whole-Genome Genotyping	■	+	+		
Custom/Focused Genotyping	+	+	+	+	•
SNP Discovery	■		■		
Whole-Genome Resequencing	■		■		
Exome Resequencing	■		■		
Custom Targeted Resequencing	■		■		
Custom Amplicon Resequencing	■		■		
Profile Gene Expression					
Whole-Genome Expression	+	+	+		
Focused Gene Expression					•
MicroRNA and Small RNA Profiling	+		+		•
MicroRNA and Small RNA Discovery	+		+		

• Illumina-supported intact samples
+ Illumina-supported intact and degraded (FFPE) samples
■ Customer-demonstrated intact and degraded (FFPE) samples

WORLDWIDE HEADQUARTERS

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Illumina®

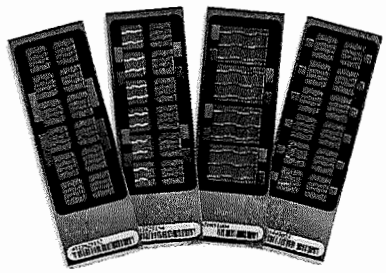
Genome-Wide DNA Analysis BeadChips

Illumina has created a comprehensive portfolio of DNA Analysis tools by deploying industry-leading content on multi-sample Infinium® HD BeadChips. Unmatched power provides researchers the fastest path to discoveries and publication.

Infinium HD Beadchip Highlights

- **Proven Content:** Publish with confidence using a foundation of well-validated assays and markers
- **Powerful Cytogenetics:** Get high-resolution analysis with dense and uniform marker spacing with minimal gaps
- **High Density:** Assay nearly 1.2 million loci per sample
- **Multi-Sample Format:** Increase sample throughput to finish projects faster
- **Low Sample Input:** Interrogate limited sample sources, down to 200 ng of DNA per sample

Figure 1: Infinium HD Beadchips



Infinium HD BeadChips provide a broad range of powerful content options in high-throughput formats for processing two, four, or 12 samples simultaneously.

Comprehensive Analysis Platform

Illumina is a leader in the field of genetic analysis with innovative tools for DNA analysis, RNA analysis, and high-throughput sequencing. With the newest generation of high-density Infinium HD products, Illumina continues to provide the most comprehensive and powerful family of DNA Analysis BeadChips, taking genotyping and copy number variation (CNV) analysis to the next level.

Infinium HD technology expands the limits of density to provide industry-leading multiplexing in multi-sample formats, while maintaining the high data quality and simple assay workflow common to all Illumina products. Furthermore, Infinium HD BeadChips have low DNA input requirements, expanding the range of sample sources that can be used for a study.

The Infinium HD products include the HumanCytoSNP-12, Human660W-Quad, Human1M-Duo, and HumanOmni1-Quad BeadChips (Figure 1). This family of Illumina BeadChips provides a broad spectrum of whole-genome DNA Analysis products to support a variety of experimental designs. Researchers have the flexibility to use panels of 300,000 to nearly 1,200,000 markers per sample, depending on their study goals. All of these BeadChips provide powerful and integrated genome-wide SNP genotyping and structural variant detection. The 12-sample HumanCytoSNP-12 is a streamlined whole-genome scanning panel for high sample throughput analysis of genetic and structural variation, including cytogenetic abnormalities. The powerful Human660W-Quad BeadChip has an ideal combination of high-coverage genome-wide SNP and CNV markers in a high-throughput format. The two-sample Human1M-Duo BeadChip provides comprehensive access to the genome with nearly 1.2 million markers covering genome-wide SNPs, CNV-targeted markers, and high-value functional regions. The four-sample HumanOmni1-Quad offers the best combination of power and throughput, featuring over one million strategically selected markers that deliver dense genome-wide coverage and extensive disease-associated content, including data from the 1000 Genomes Project. The unparalleled content and assay technology of Infinium HD BeadChips provide the fastest path to discoveries and publication.

Powerful Markers

Genome-wide association studies (GWAS) rely on genotyping SNPs near a disease locus to identify genetic links to disease. As highlighted in a study from University of Michigan researchers comparing different array platforms, Illumina's marker selection strategy is demonstrably better for GWAS studies[1]. Infinium BeadChips offer benefits in terms of several critical parameters that together contribute to the statistical power in an experiment: genomic coverage, array efficiency, genic coverage, call rate, and call accuracy[2].

The power to detect an association depends on the linkage disequilibrium (r^2) between the genotyped marker and the adjacent disease-causing SNP. A high r^2 between two SNPs indicates that the two SNPs can act as good proxies (tag SNPs) for each other[3]. Because the Infinium HD Assay chemistry—like the Infinium II Assay—affords flexible marker selection, Illumina scientists are able to rationally select loci that provide the highest information content, while using fewer SNPs. Illumina has taken advantage of this flexibility by selecting powerful tag SNPs and other high-value regions for markers. A result of this strategy is that the ~300,000 markers on the HumanCytoSNP-12 provide nearly the same genomic coverage in the Caucasian (CEU) population as a competing 924,000-marker array.

Compared to microarrays with randomly selected SNP content, Illumina's DNA Analysis BeadChips offer the industry's highest statistical power per sample by reducing the correction factor for multiple testing by almost 40%. Higher power means fewer samples are needed to identify significant genetic variations. Studies can be completed faster and more economically to support rapid publication in top-tier journals (for examples, browse customer citations at www.illumina.com/publications).

Comprehensive Coverage

Illumina DNA Analysis BeadChips provide optimized panels for surveying genetic variants[1-4]. All genome-wide Infinium DNA Analysis products start with a broad set of tag SNPs and other valuable SNPs from the International HapMap Project and NCBI's dbSNP to provide high genomic coverage and uniformity across the genome. All genome-wide DNA Analysis products also include a set of additional CNV-targeted markers designed to increase coverage of regions underrepresented by tag SNPs.

In the Illumina portfolio, individual BeadChips offer slightly different content and numbers of markers to provide flexible options for using the optimal content panel in any study design (Table 1).

HumanCytoSNP-12 DNA Analysis BeadChip Content

The HumanCytoSNP-12 BeadChip represents the most efficiency-optimized DNA Analysis content selection strategy. It includes a complete panel of genome-wide tag SNPs and additional markers targeting all regions of known cytogenetic importance.

Illumina scientists employed 200,000 "best of the best" SNPs that have the highest tagging power. This content maintains the exceptional genome-wide SNP coverage that Illumina is known for (70% in CEU at $r^2 > 0.8$) because of the efficient marker design strategy[2]. At the same time, a set of 220,000 markers provides extra utility for cytogenetic analysis. This includes dense coverage of ~250 genomic regions commonly studied in cytogenetics labs and targeted coverage in additional genes, subtelomeric regions, pericentromeric regions, and sex chromosomes[5].

Furthermore, the HumanCytoSNP-12 takes advantage of the industry's first 12-sample whole-genome BeadChip and Illumina's high-density array technology to provide the highest throughput and most cost-effective BeadChip.

Human660W-Quad DNA Analysis BeadChip Content

The Human660W-Quad BeadChip offers comprehensive genomic coverage across many populations and the majority of known variation in regions of the genome based on HapMap data.

The Human660W-Quad BeadChip builds on the content of the highly successful HumanHap550 BeadChip. The broad, evenly spaced whole-genome marker set provides high genomic coverage for powerful GWAS. In addition, the Human660W-Quad BeadChip provides 87%, 85%, and 56% coverage of CEU, CHB+JPT, and YRI populations at $r^2 > 0.8$ (Figure 2).

For equally powerful CNV and cytogenetic analysis, this dense backbone content is combined with an additional ~100,000 markers that target observed common CNVs.

The entire panel of 657,000 markers provides exceptional genomic coverage and identification of known and novel structural variants, combined with an efficient multi-sample format.

Human1M-Duo DNA Analysis BeadChip Content

With nearly 1.2 million markers per sample, the Human1M-Duo provides a powerful combination of quality, coverage, and throughput. The comprehensive set of markers on the Human1M-Duo BeadChip provides access to dense genome-wide tag SNP coverage as well as additional content targeted to high-value genomic regions of interest. Other probes are located in SNP deserts to fill in gaps.

The uniform genome-wide coverage results in a median spacing between markers of 1.5 kb (mean = 2.4 kb) and few large gaps for high-resolution CNV identification and cytogenetics analysis. Ensuring no regions are skipped, the 90th percentile largest gap between SNPs on the Human1M-Duo BeadChip is 6 kb. The result of this comprehensive design strategy is 95%, 93%, and 76% coverage of CEU, CHB+JPT, and YRI populations at $r^2 > 0.8$.

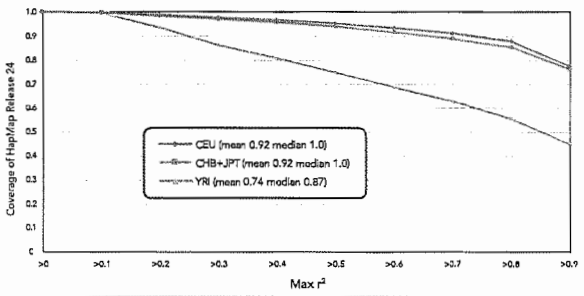
In addition to the broad coverage crucial for successful whole-genome association studies, the Human1M-Duo BeadChip targets other high-value content. Gene-centric markers selected in and around genes target both synonymous and non-synonymous SNPs to increase genic coverage. In addition, more than 10,000 markers are included for the major histocompatibility complex (MHC) region, which contains a high density of genes often associated with autoimmune and infectious diseases.

The BeadChip also features ~60,000 CNV-targeted markers, developed in collaboration with deCODE Genetics, for regions likely to contain undiscovered CNV. Novel CNV-specific probes and the dense uniform genome-wide SNP coverage support unbiased discovery and analysis of copy number polymorphisms.

HumanOmni1-Quad DNA Analysis BeadChip Content

The HumanOmni1-Quad BeadChip provides an unparalleled, extensive view of the genome, in a highthroughput, cost-effective format. A complete optimization of the BeadChip design increases the available complexity, allowing nearly five million markers to be assayed across four different samples in parallel, while reducing the amount of required DNA to 200 ng. Each BeadChip features over one million

Figure 2: Human660W-Quad Genomic Coverage



The Human660W-Quad BeadChip content covers the majority of common variation in three distinct populations. Graphs are estimated, based on the HapMap release 24 data set of > 2.3 million common SNPs.

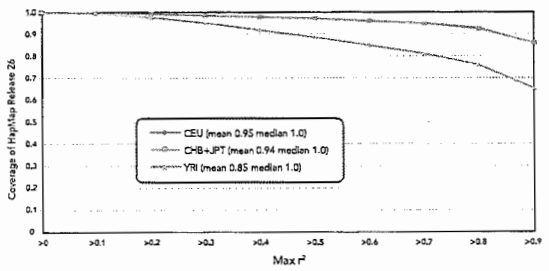
available assays per sample, containing carefully selected content that delivers dense coverage of the human genome and targets regions known to play a role in human disease. This comprehensive collection of genomic markers offers the best combination of power, price and throughput available for genome-wide association studies.

With recently released data from all three HapMap phases, intelligent tag SNP selection has been optimized to maintain comprehensive genomic coverage, while reducing SNP redundancy. This has enabled the inclusion of additional content carefully chosen to target high-value regions of the genome, such as the MHC region and new coding variants identified by the 1000 Genomes Project. The redesigned SNP selection strategy has maintained high genomic coverage rates of 93%, 92%, and 76% at $r^2 > 0.8$ for the CEU, CHB+JPT, and YRI populations, respectively (Figure 3). High density markers with a median spacing of 1.5 kb and the fewest number of large gaps for any BeadChip ensure the highest level of resolution for CNV identification in the industry.

The HumanOmni1-Quad is the only BeadChip to include cutting-edge content derived from the 1000 Genomes Project. This large international effort is dramatically increasing the information we have about genetic variation across human populations6. Already, the project has uncovered millions of rare and novel SNPs that will drive the next generation of microarrays. For the HumanOmni1-Quad, SNPs selected from the 1000 Genomes Project focus on regions already identified in GWAS to be associated with human disease. This content includes ~18,000 SNPs targeting four 1Mb regions known to be associated to three or more human diseases; over 50,000 SNPs predicted to be non-synonymous; 62,000 SNPs covering an additional 100 intervals surrounding published peak markers from the NHGRI GWAS database; and the remaining 950 top single-marker associated SNPs from the GWAS database.

With high-throughput processing, comprehensive genomic coverage and the ability to capture a vast amount of genetic variation, the HumanOmni1-Quad BeadChip lets you make more meaningful discoveries and take the fastest path to publication.

Figure 3: Humanomni1-Quad Genomic Coverage



The HumanOmni1-Quad BeadChip content covers the majority of HapMap common variation in three distinct populations. Graphs are based on the HapMap release
26 data set of > 2.3 million common SNPs.

Sensitive Structural Variant Detection

Dense Uniform Markers

An important goal during the design of Infinium HD content panels was the uniform distribution of SNP markers to create the best panels for detecting structural variation, including loss of heterozygosity. With the fewest large gaps across the whole genome, the HumanOmni1-Quad BeadChip is an ideal tool for CNV researchers to use for discovery and high-resolution breakpoint mapping (Figure 4).

Intelligent Targeted Content

Of course, some regions of the genome are naturally underrepresented by tag SNPs. Illumina scientists have leveraged the flexible Infinium Assay design to generate marker sets that provide the industry's best CNV detection panels.

The HumanCytoSNP-12 BeadChip is optimized to efficiently detect cytogenetic abnormalities that are the most relevant to human disease. Its content panel targets common regions shown to be important for cytogenetic analysis5 and a dense backbone of coverage across the remainder of the genome.

The Human660W-Quad contains a set of ~100,000 markers that are highly informative for analyzing common CNV regions. These markers were identified in a high-density screen for CNVs that occur in two or more HapMap samples, which was conducted in collaboration with The Centre for Applied Genomics at the Hospital for Sick Children in Toronto, the Wellcome Trust Sanger Institute in the United Kingdom, and Harvard Medical School/Brigham and Women's Hospital in Boston.

The Human1M-Duo features content developed in collaboration with deCODE Genetics to blanket the "unSNPable genome" with additional non-polymorphic markers7. This includes difficult-to-analyze regions like megasatellites and segmental duplications, which are targeted with both SNPs and non-polymorphic probes. Many of these regions have been validated with other approaches, such as TaqMan and Southern blotting, to confirm variance in copy number in several representative populations.

The HumanOmni1-Quad includes extensive high-value content focused on disease-associated regions: cSNPs, eSNPs, indels, SNPs in mRNA splice sites, miRNA binding sites, introns, promoter regions, ADME genes, disease-associated SNPs, mitochondrial DNA, AIMs, ABO blood typing SNPs, PAR, Y-chromosome, MHC region, and HLA complex. The BeadChip also provides high CNV coverage (Figure 4), featuring 5,000+ rare CNV regions in addition to all the common CNV content available on the Human660W-Quad.

CNV-targeted probes share the same rational design strategy with all SNPs. All markers on Infinium HD BeadChips have high feature redundancy, yielding low overall noise, and all markers are used for reliable and sensitive detection of changes in copy number. The consistent marker design allows all markers to be analyzed together using GenomeStudio® Software. Completely integrated genotyping and copy number studies maximize analytical efficiency[8–10].

The resulting rationally designed content on Infinium HD BeadChips supports the industry's most powerful SNP genotyping and CNV identification[3,1].

Table 1: Comprehensive Coverage of High-Value Regions

	HUMANCytoSNP-12 v2.1	HUMAN660w-QUAD v1	HUMAN1M-DUO v3	HumanOmni1-Quad v1
Overview	**Efficient coverage for cost-effective GWAS and cytogenetic screening**	**High genomic coverage of common SNPs and CNV regions**	**Genome-wide coverage and additional high-value regions**	**Comprehensive genome-wide coverage and additional high-value regions, including new content from 1,000 Genomes Project**
Number of Markers per Sample	299,140	657,366	1,199,187	1,140,419
Number of Samples per BeadChip	12	4	2	4
DNA Input Requirement (per sample)	200 ng	200 ng	400 ng	200 ng
Scan Times per Sample (minutes)#	3	9	18	13
Genomic Coverage				
CEU (Mean / Median / $r^2 > 0.8$)	0.81 / 0.94 / 0.70	0.92 / 1.0 / 0.87	0.96 / 1.0 / 0.95	0.95 /1.0 / 0.93
CHB+JPT	0.83 / 0.94 / 0.73	0.92 / 1.0 / 0.85	0.95 / 1.0 / 0.93	0.94 / 1.0 / 0.92
YRI	0.55 / 0.52 / 0.32	0.74 / 0.87 / 0.56	0.86 / 1.0 / 0.76	0.85 / 1.0 / 0.76
Minor Allele Frequency*				
CEU (Mean / Median)	0.22 / 0.21	0.24 / 0.23	0.20 / 0.18	0.19 / 0.17
CHB+JPT	0.21 / 0.19	0.21 / 0.20	0.18 / 0.16	0.18 / 0.15
YRI	0.21 / 0.19	0.22 / 0.21	0.20 / 0.17	0.20 / 0.18
Spacing (kb)				
(Mean / Median)	9.7 / 6.2	4.4 / 2.3	2.4 / 1.5	2.4/ 1.2
90th %ile Largest Gap	18.7	10.6	6.0	6.4
Marker Categories				
Markers Within 10 kb of a RefSeq Gene	148,987	332,756	672,002	618,959
Non-Synonymous SNPs§	2,420	10,051	21,677	32,110
MHC† / ADME‡ / Indel SNPs	760 / 2,388 / 0	3,177 / 8,440 / 0	10,415 / 20,493 / 483	19,081 / 22,429 / 459
Sex Chromosome (X / Y / PAR Loci)	15,400 / 2,972 / 770	16,509 / 44 / 15	45,591 / 4,637 / 979	27,493 / 2,322 / 1,157
Mitochondrial SNPs	0	135	138	27

Scan times are approximations based on the iScan platform

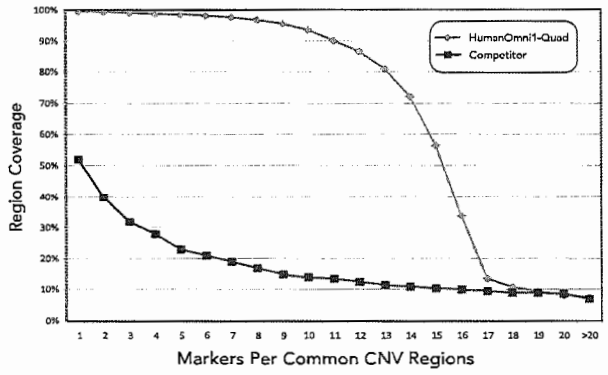
*Based on HapMap rel 24 for HumanCytoSNP-12, Human660W-Quad, and HumanOmni1-Quad, and rel 23 for Human1M-Duo

§Based on RefSeq and Ensembl databases

†As defined by de Bakker, 2006

‡Within 10 kb of 333 known ADME-related gene

Figure 4: Outstanding Coverage of Common CNVS



The intelligent marker selection used for all Illumina BeadChips results in substantially better coverage of important regions compared to greater numbers of randomly selected markers.

Custom Content Options

Illumina offers the option of adding custom-designed content to the broad genome-wide standard SNP content on the Human1M-Duo and Human660W-Quad BeadChips. The results are semi-custom Human1M-Duo+ and HumanHap550-Quad+ BeadChips. With assistance from Illumina scientists and a proprietary Assay Design Tool, researchers can include an additional panel of up to 60,800 SNPs to the powerful standard content.

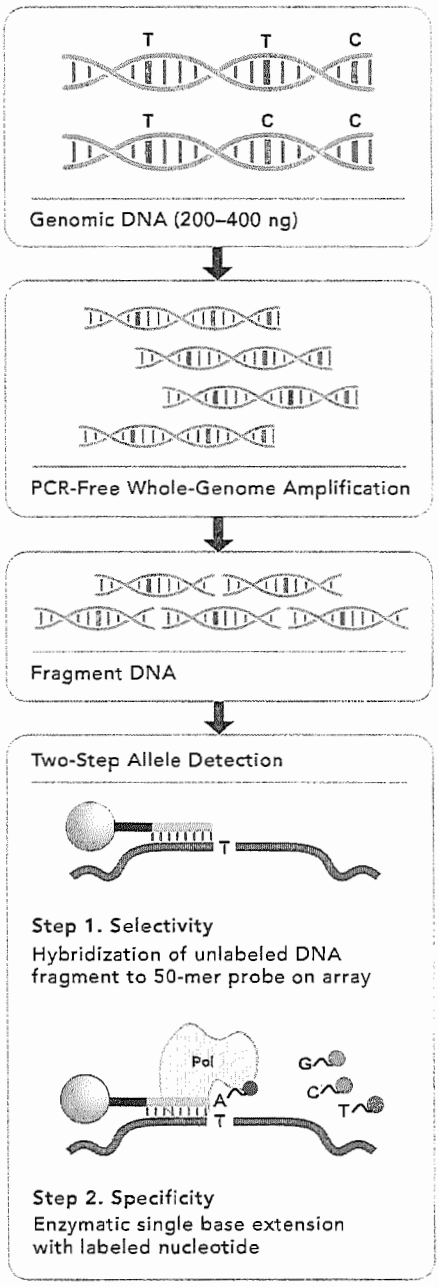
Streamlined Assay Workflow

The Infinium HD Assay can be scaled to unlimited multiplexing without compromising data quality, unlike many alternative PCR-dependent assays. The simple, streamlined workflow is common across all products, no matter how many SNPs are being interrogated. Likewise, the data acquisition process and analysis are the same.

The Infinium HD Assay protocol (Figure 5) features single-tube sample preparation and whole-genome amplification without PCR or ligation steps, significantly reducing labor and sample handling errors. After hybridizing unlabeled DNA sample to the BeadChip, two-step allele detection provides high call rates and accuracy. Selectivity and specificity are accomplished in two steps. Target hybridization to bead-bound 50-mer oligos provides high selectivity while enzymatic single-base extension provides powerful specificity. The single-base extension also incorporates a labeled nucleotide for assay readout. The staining reagent is optimized to provide a higher signal, and more balanced intensities between red and green channels. These features contribute to industry-leading accuracy, high call rates, and copy number data with lower noise.

The iScan System uses advanced optics for high-resolution detection and high-throughput readout of assay results. With this system and 12-sample BeadChips, researchers can scan each sample in three minutes (Table 1).

Figure 5: Infinium HD Assay



Multi-Sample Format

The efficient multi-sample format of Illumina BeadChips cost-effectively increases sample throughput. Reduced handling, more efficient scanning, and higher density assays contribute to higher sample throughput rates so projects are finished faster. Also, by effectively eliminating array-to-array variability, the multi-sample format is ideal for analyzing matched samples.

Low DNA Input Requirement

Infinium HD BeadChips require low quantities of input DNA, providing opportunities to use more limited sample sources (Table 1). Four- or 12-sample Infinium HD BeadChips require only 200 ng DNA per sample, and two-sample BeadChips require 400 ng DNA per sample.

High Quality Data

All of the assays on the HumanOmni1-Quad, Human1M-Duo, Human660W-Quad, and HumanCytoSNP-12 DNA Analysis BeadChips use Infinium HD chemistry. These BeadChips have undergone the same rigorous functional testing that ensures strong and reproducible performance of all Illumina products. One assessment of data quality was the analysis of a diverse panel of HapMap reference samples (Table 2). As shown in Table 2, the Infinium HD BeadChips perform extremely well, producing high call frequencies and excellent reproducibility.

Successful genome-wide association studies depend, in part, on the high call rates that Illumina DNA Analysis BeadChips exhibit. Since complex disease traits often have relatively small gene effects, potential associations may be missed if an assayed SNP, in LD with a disease SNP, has a low call rate. Data from the Infinium HD DNA Analysis BeadChips show strong reproducibility (> 99.9%) and concordance with the International HapMap Project (> 99.2%). Additionally, these BeadChips provide precise copy number metrics with low overall noise levels (Table 2), allowing reliable detection of single changes in copy number.

Internal Quality Controls

All products based on the Infinium HD Assay have several sample-dependent and sample-independent internal controls so researchers have confidence that they are producing the highest quality data. The performance of all controls can be monitored easily with the GenomeStudio Genotyping Module integrated Controls Dashboard.

Analysis Software

Illumina's GenomeStudio Data Analysis Software offers integrated genotyping and copy number tools and a graphical Genome Viewer. GenomeStudio Software has an open plug-in interface to integrate third-party applications for more downstream data analysis options. The illumina•Connect[11] program leverages this open architecture and has made numerous plug-ins available to support genotyping and copy number analysis.

iControlDB

Illumina hosts a database of genotypic and phenotypic data generated by researchers using Illumina genotyping products, which can be used to supplement controls in case-control association studies[12]. Access to the thousands of controls in the free iControlDB database allow researchers to increase the power of an association study and decrease overall project costs.

Automation

As with most of Illumina's standard DNA Analysis products, an optional Laboratory Information Management System (LIMS) and robotic automation accurately and efficiently track samples to provide workflow management and overall project management. This system, custom designed for Infinium workflows, allows labs to maximize their throughput with a completely integrated microarray solution.

Services

Illumina FastTrack Genotyping Services are available to analyze samples in a timely fashion at a reasonable cost using any Infinium DNA Analysis BeadChip. This option allows researchers to acquire high-quality data for limited studies or before purchasing their own equipment.

Summary

Illumina whole-genome DNA Analysis BeadChips are high-quality tools for SNP genotyping and analysis of structural variants. This genetic analysis platform offers a range of solutions with different numbers of markers per sample and different numbers of samples per BeadChip. All Illumina BeadChips offer the highest data quality and most complete genomic coverage in the industry. By choosing a BeadChip that matches the study design, researchers can confidently pursue the fastest path to discoveries and publication.

References

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14. Interpreting Infinium Assay Data for Whole-Genome Structural Variation, http://www.illumina.com/downloads/cytoanalysis_TN.pdf

Table 2: Genotyping Data Quality of DNA Analysis Beadchips Using Reference Samples

HumanCytosnp-12 BeadChip (283 DNA Samples, 15 Replicates, 56 Trios)

Genotyping Parameter	Value from Reference Samples	Product Specification	CNV Analysis Parameter	Value from Reference Samples	Expected**
Call Frequency	99.71%	> 99% average	Log R Ratio†	0.10	< 0.30
Reproducibility	100.00%	> 99.9%	B Allele Frequency†§	0.03	< 0.04
Mendelian Inconsistencies	0.02%	< 0.1%			
HapMap Concordance	99.77%	N/A			

Human660W-Quad BeadChip (283 DNA Samples, 15 Replicates, 58 Trios)

Genotyping Parameter	Value from Reference Samples	Product Specification	CNV Analysis Parameter	Value from Reference Samples	Expected**
Call Frequency	99.96%	> 99% average	Log R Ratio†	0.16	< 0.30
Reproducibility	100.00%	> 99.9%	B Allele Frequency†§	0.03	< 0.04
Mendelian Inconsistencies	0.04%	< 0.1%			
HapMap Concordance	99.76%	N/A			

Human1M-Duo BeadChip (284 DNA Samples, 15 Replicates, 58 Trios)

Genotyping Parameter	Value from Reference Samples	Product Specification	CNV Analysis Parameter	Value from Reference Samples	Expected**
Call Frequency	99.83%	> 99% average	Log R Ratio†	0.15	< 0.30
Reproducibility	100.00%	> 99.9%	B Allele Frequency†§	0.03	< 0.04
Mendelian Inconsistencies	0.05%	< 0.1%			
HapMap Concordance	99.63%	N/A			

HumanOmni1-Quad BeadChip (282 DNA SAMPLES, 15 REPLICATES, 56 TRIOS)

Genotyping Parameter	Value from Reference Samples	Product Specification	CNV Analysis Parameter	Value from Reference Samples	Expected**
Call Frequency	99.87%	> 99% average	Log R Ratio†	0.13	< 0.30
Reproducibility	100.00%	> 99.9%	B Allele Frequency†§	0.03	< 0.04
Mendelian Inconsistencies	0.02%	< 0.1%			
HapMap Concordance	99.64%	N/A			

*Based on CEU trios using loci with MAF ≥ 0.01; given as the frequency of markers with minor allele undertransmitted relative to the expected 50%

**Values expected for typical projects, excluding tumor samples or any samples prepared not following standard Illumina protocols

†Excludes sex chromosomes, mtDNA, and intensity-only loci

§Heterozygotes only

Ordering Information

Product	BeadChips	Samples	Catalog No.
HumanCytoSNP-12 v2.1 BeadChips and Reagents	1	12	WG-320-2101
	2	24	WG-320-2102
	4	48	WG-320-2103
	24	288	WG-320-2104
	96	1,152	WG-320-2105
Human660W-Quad v1 BeadChips and Reagents	4	16	WG-311-1501
	12	48	WG-311-1502
	24	96	WG-311-1503
	96	384	WG-311-1504
Human1M-Duo v3 BeadChips and Reagents	8	16	WG-311-1105
	24	48	WG-311-1102
	48	96	WG-311-1103
	192	384	WG-311-1104
HumanOmni1-Quad v1 BeadChips and Reagents	4	16	WG-311-1110
	12	48	WG-311-1111
	24	96	WG-311-1112
	96	384	WG-311-1113

Additional Information

Visit www.illumina.com/infinium or contact us at the address below to learn more about Illumina DNA Analysis BeadChips. Related technical notes13,14 are available at www.illumina.com/literature.

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Extension-Ligation Mix
1 x 4.8 mL
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Index Primers A(A501)-H(A508)
1 x 192 uL
DX A701 - DX A712
Index Primers 1(A701)-12(A712)
1 x 128 uL
DX TOP1
PCR Polymerase
1 x 56 uL
DX PMM2
PCR Master Mix
1 x 2.8 mL
DX LNA1
Library Normalization Diluent
1 x 4.6 mL
DX HT1
Library Dilution Buffer
1 x 4.5 mL
DX PX3
PhiX Internal Control
1 x 10 uL
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MiSeqDx™ Instrument Reference Guide

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ILLUMINA PROPRIETARY
Part # 15044371 Rev. A
June 2013

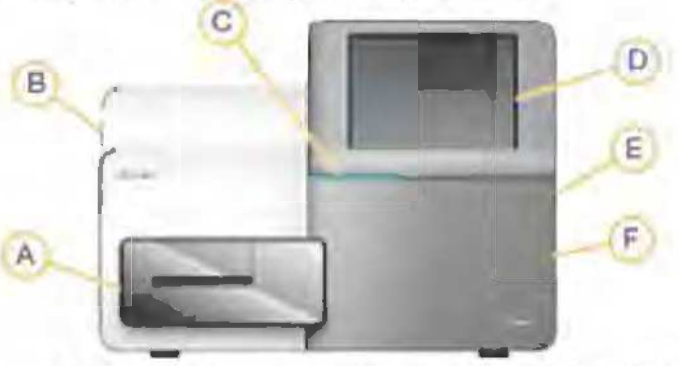
Table of Contents

Intended Use

The Illumina MiSeqDx instrument is a Next Generation sequencer that integrates cluster generation, sequencing and data analysis using sequencing by synthesis (SBS) chemistry. The MiSeqDx is intended for *in vitro* diagnostic use.

Components

The MiSeqDx has the following exterior components:



A **Flow cell compartment**—Contains the flow cell stage that houses the flow cell throughout the run. Flow cell stage motors move the stage out of the enclosed optical module for flow cell loading and returns the stage when the run begins.

B **Enclosed optics module**—Contains optical components that enable imaging of the flow cell.

C **Status bar**—Uses three colors to indicate instrument status. Blue indicates that the instrument is processing, orange indicates the instrument needs attention, and green indicates that the instrument is ready to begin the next run.

D **Touch screen monitor**—Enables on-instrument configuration and run setup using the software interface.

E **External USB port**—Facilitates the transfer of files and data to the instrument computer from the touch screen monitor.

F **Reagent compartment**—Holds reagents at proper temperatures, wash solutions, and the waste bottle. A magnetic latch secures the reagent compartment door.

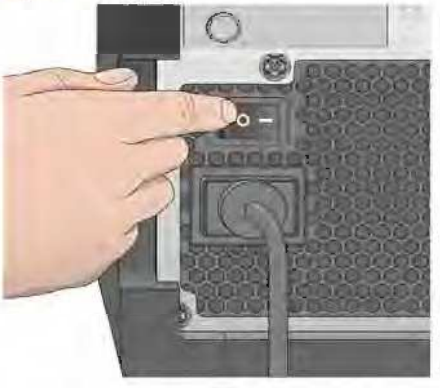
The MiSeqDx interface guides users through the run setup steps using the touch screen monitor.

Starting the MiSeqDx

NOTE
Illumina recommends that you leave the instrument on continuously. However, if the instrument must be turned off follow the shutdown procedure described in *Shutting Down the Instrument* on page 74. Wait a ***minimum*** of 60 seconds before turning the power switch back to the ON position.

1 If the MiSeqDx is not already on, reach around the right side of the instrument to locate the power switch on the back panel. It is in the lower corner directly above the power cord.

Figure 1 Power Switch Location



2 Turn the power switch to the ON position. The integrated instrument computer starts.

3 Log in to the operating system.
Wait until the operating system has finished loading. The MiSeq Operating Software (MOS) launches and initializes the instrument automatically.
After the initialization step is complete, the Welcome screen appears.

Figure 2 Welcome Screen

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Log in to get personalized account information. Quick Order View Cart

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QUESTIONS

Illumina Clinical Services Laboratory

- Overview
- TruGenome Clinical Sequencing Services
- For Physicians
- For Patients/Guardians
- About the Lab

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Genomics-based healthcare is available now for you and your patients.
We are in the beginning of a new era of using genomic information to make critical healthcare decisions. To enable you and your patients to take advantages of this transformative knowledge, Illumina Clinical Services Laboratory provides solutions to advance genomics-based healthcare.

TruGenome Clinical Sequencing tests help you both diagnose and assess your patients' risk for certain genetic diseases:

- With genome-based testing, we can deliver comprehensive answers—accurately and quickly—to your questions about genetic aberrations and rare diseases.
- You can make genetically informed decisions personalized to each patient.
- Ultimately, genome-based testing may enable us to manage health through wellness, not illness.

Service Descriptions

Currently, three TruGenome Clinical Sequencing Services are available:

- TruGenome Undiagnosed Disease Test
  For helping find the underlying genetic cause of an undiagnosed rare genetic disease of single-gene etiology
- TruGenome Predisposition Screen
  For healthy patients interested in learning about their carrier status and genetic predisposition towards adult-onset conditions
- TruGenome Technical Sequence Data
  Whole-genome sequencing in the CLIA-certified, CAP-accredited Illumina Clinical Services Laboratory for labs and physicians who will make their own clinical interpretations

Read more about the TruGenome Clinical Sequencing Services »

For Physicians

Whole-genome sequencing provides the most comprehensive genome-based testing currently available. The information gained may prove helpful in managing your patient's healthcare. In this section, you can review the process, including how to order a test, download test forms, understand how results are delivered, and find answers to frequently asked questions.

Learn more about the genome-based testing process »

For Patients/Guardians

Information from your genome sequence can be used to understand how DNA changes or variations in your genome may impact your health. In this section, you'll learn more about the genome, how we read the genome, and the role of genes in inherited disease.

Learn more about the genome »

About the Lab

Illumina has been providing high-quality DNA analysis services, including

DNA Sequencing Solves A Medical Mystery

Howard Jacob, Ph.D., Medical College of Wisconsin
Hear how Dr. Jacob saved a child with an undiagnosed disease.
Watch the video »

In the News

- Genome sequencing for healthy individuals
- Sequence from the start

Be a part of the movement that engages, educates, and motivates the medical community to improve overall human health.
Get genomed »

next-generation sequencing (NGS), to the research community since 2001. In 2009, we established a CLIA-certified, CAP-accredited clinical laboratory, Illumina Clinical Services Laboratory, for the purpose of offering human whole-genome sequencing services to physicians and genetic counselors. All of our Clinical Laboratory Scientists are NCA-certified in molecular genetics with active California licenses as Clinical Molecular Genetic Scientists and California-approved Medical Technologists (ASCP). They have extensive training and experience with Illumina NGS technologies. In fact, the Illumina Clinical Services Laboratory was the first to generate a personal genome sequence in a clinical laboratory setting.

Learn more about us »

TruGenome Clinical Sequencing Services is performed in the Illumina CLIA (Clinical Laboratory Improvements Amendment)-certified and CAP (College of American Pathologists) accredited Clinical Services Laboratory. The TruGenome Sequence information is generated by licensed personnel using an analytically validated process. Consistent with Laboratory Developed Tests, it has not been cleared or approved by the U.S. Food and Drug Administration.

This genome sequence information can be analyzed to potentially aid your physician in the evaluation of a broad range of health conditions or physiological traits. You will not receive medical results, or a diagnosis, or a recommendation for treatment from Illumina. Any results arising from the analysis of your genome sequence information that might be deemed medically actionable should be confirmed using alternative testing. If you have any questions or concerns about what you learn through your genome sequence information, you should contact your physician or a genetic counselor. Currently Illumina does not accept orders for TruGenome Clinical Sequencing Services from New York.

Innovative technologies
At Illumina, our goal is to apply innovative technologies to the analysis of genetic variation and function, making studies possible that were not even imaginable just a few years ago. It is mission critical for us to deliver innovative, flexible, and scalable solutions to meet the needs of our customers. As a global company that places high value on collaborative interactions, rapid delivery of solutions, and providing the highest level of quality, we strive to meet this challenge. Illumina's innovative sequencing and array technologies are fueling groundbreaking advancements in life science research, translational and consumer genomics, and molecular diagnostics.

Exhibit 203

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Illumina and ReaMetrix to Collaborate on Molecular Diagnostics and Market Development; ReaMetrix Secures Non-Exclusive License to Market Diagnostic Panels in India

SAN DIEGO & SAN CARLOS, Calif.--(BUSINESS WIRE)--July 20, 2006--Illumina, Inc. (NASDAQ: ILMN) and ReaMetrix, Inc. announced today the formation of a diagnostic collaboration under which the companies plan to co-develop molecular diagnostic panels for a range of disease areas. Under the terms of the agreement, ReaMetrix will gain non-exclusive rights to market the resulting panels to the country of India and its more than one billion inhabitants. Illumina will retain rights to market the tests outside of India.

Illumina will supply VeraCode(TM) technology and other reagents for the tests. ReaMetrix will develop, validate and market diagnostic panels based on Illumina's upcoming BeadXpress(TM) platform, scheduled for market introduction before the end of the calendar year.

ReaMetrix will drive market development activities from its operation in Bangalore, India. According to Bala Manian, Ph.D., ReaMetrix Chief Executive Officer, "India's rapidly emerging healthcare system presents a tremendous opportunity to leapfrog current diagnostics and chart a new path with innovative molecular and pharmacogenomic testing. Teaming up with Illumina and its BeadXpress diagnostic platform, we see a significant opportunity to drive the evolution toward the efficiencies inherent in targeted, personalized medicine. In targeting the wide-open Indian market, we will be creating products that will drive value the world over."

According to Jay Flatley, President and CEO of Illumina, "Many of us in the genomics community know Bala Manian from past lives. Bala is a true visionary and we're looking forward to working closely with him and his team to develop and validate novel diagnostic panels that will help predict the risk of disease, enable earlier intervention and guide therapy. For Illumina, this agreement represents another important step forward into the clinical diagnostics market."

About Illumina

Illumina (http://www.illumina.com/) develops and markets next-generation tools for the large-scale analysis of genetic variation and function. The Company's proprietary BeadArray technology -- used in leading genomics centers around the world -- provides the throughput, cost effectiveness and flexibility necessary to enable researchers in the life sciences and pharmaceutical industries to perform the billions of tests necessary to extract medically valuable information from advances in genomics and proteomics. This information will help pave the way to personalized medicine by correlating genetic variation and gene function with particular disease states, enhancing drug discovery, allowing diseases to be detected earlier and more specifically, and permitting better choices of drugs for individual patients.

About ReaMetrix

ReaMetrix (http://www.reametrix.com/) is committed to becoming the leading provider of high-quality research and diagnostic assay solutions resulting in a transformation of the cost opportunities available in India into value for both the biotechnology and global health sectors. ReaMetrix' business model leverages local resources to address local markets, and the Company believes that its market

understanding gives it a competitive advantage in understanding and serving India as well as other developing nations.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: this release may contain forward-looking statements that involve risks and uncertainties. Among the important factors that could cause actual results to differ materially from those in any forward-looking statements are the costs and outcome of Illumina's litigation with Affymetrix, the Company's ability to scale and integrate CyVera technology, the ability to further scale oligo synthesis output and technology to satisfy market demand deriving from the Company's collaboration with Invitrogen, Illumina's ability to further develop and commercialize its BeadArray technologies and to deploy new gene expression and genotyping products and applications for its platform technology, to manufacture robust Sentrix (R) arrays -- including HumanHap BeadChips -- and Oligator(R) oligonucleotides, and other factors detailed in the Company's filings with the Securities and Exchange Commission including its recent filings on Forms 10-K and 10-Q or in information disclosed in public conference calls, the date and time of which are released beforehand. Illumina disclaims any intent or obligation to update these forward-looking statements beyond the date of this release.

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SOURCE: Illumina, Inc.

Exhibit 204

Extraction of Bacterial DNA from Gram-Positive and Gram-Negative Species

Les Hoffman,[1] Shiguo Zhou,[2] and Shannon Krueger[1]

1. EPICENTRE Biotechnologies; 2. University of Wisconsin, Laboratory for Molecular and Computational Genomics, Madison, WI 53703.

Introduction

Extracting DNA from Gram-positive and Gram-negative bacteria is an essential preliminary step in species identification, using techniques such as PCR, restriction digestion, pulsed-field gel electrophoresis (PFGE), and optical mapping. The QuickExtract™ Bacterial DNA Extraction Kit provides a simple, scalable, single-tube method for extracting bacterial DNA. This method can be used to process one to hundreds of samples, with no sample loss or toxic organic solvents. The QuickExtract Bacterial DNA Extraction Kit has been tested on a range of Gram-positive and Gram-negative bacteria.

Methods and Results

Overview

An overview of the procedure is presented in Fig. 1. Bacterial cells can be obtained directly from a plate or from bacterial suspension cultures. We recommend using approximately 10^8 bacterial cells for each extraction. For suspension cultures, use approximately 0.5 ml of suspension, and pellet the cells by centrifugation. After washing the cell pellet once with water, recentrifuge and carefully remove and discard the supernatant. Add 100 µl of QuickExtract Bacterial DNA Extraction Solution to the cell pellet (or directly to the bacterial stab, if plates are used). Add 1 µl of Ready-Lyse Lysozyme Solution (provided) to each tube and mix gently by inversion. Incubate the suspension at room temperature for 15 minutes. If the solution is not clearing, wait an additional hour at room temperature. Lysis can be extended to several hours if necessary. Optional: If it is important to kill any remaining viable bacteria, the sample may be heated at 80°C for 2 minutes. The DNA is now ready for PCR, restriction digests, PFGE, or optical mapping. If the DNA is to be used for PCR, it may be necessary to dilute the DNA in TE buffer.

Table 1. Species of bacteria that have been tested with the QuickExtract™ Bacterial DNA Extraction Kit.

Gram-Positive Species	Gram-Negative Species
Bacillus subtilis	*E. coli*
Bifidobacterium spp.	*Salmonella typhimurium*
Brevibacterium linens	*Vibrio gazogenes*
Lactobacillus plantarum	
Listeria monocytogenes	
Staphylococcus equorum	
Streptococcus agalactiae	
Streptococcus pyogenes	
Streptococcus thermophilus	

Bacterial species tested

The kit has been tested with a range of Gram-positive and Gram-negative species (Table 1). The time required for lysis will vary from 15 minutes to several hours at room temperature. We recommend testing a range of incubation times at room temperature for lysis of each organism.

We isolated DNA from a variety of bacteria and used the DNA in PCR with universal primers designed to amplify the 16S ribosomal RNA gene (Fig. 2). All species tested yielded the expected amplification products.

Optical mapping

Optical mapping is a technology that generates high-resolution, ordered, whole-genome restriction maps from single DNA molecules.[1] During optical mapping, genomic DNA molecules, extracted either from PFGE agarose gel plugs or from direct liquid lysis of cells, are mounted on a silane-derivatized glass surface, using a microfluidic device. After applying a polyacrylamide overlay, restriction digestion is performed on the glass surface. The digested DNA molecules are then stained

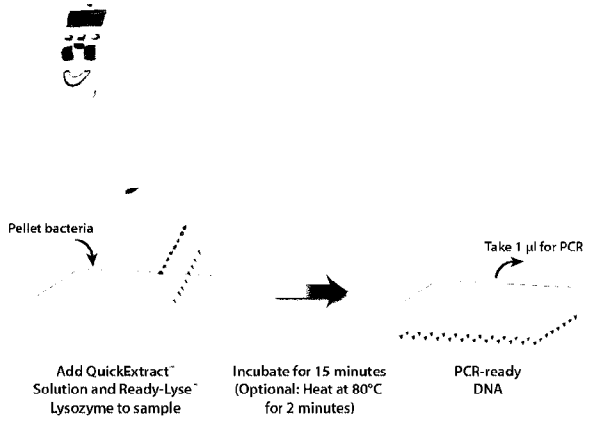

Figure 1. Overview of the QuickExtract™ Bacterial DNA Extraction Kit procedure.

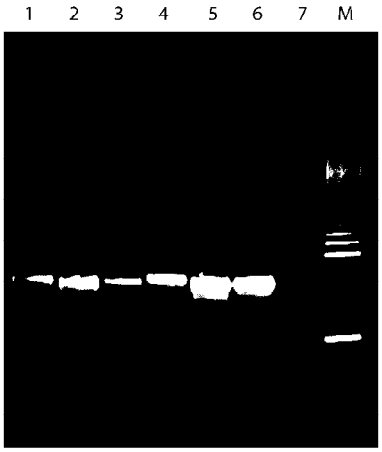

Figure 2. PCR amplification of DNA extracted with the QuickExtract™ Bacterial DNA Extraction Kit. Various Gram-positive and Gram-negative bacteria were grown on LB medium plates at 30°C or 37°C. Colony material was processed using the standard QuickExtract Bacterial DNA Kit protocol. A 1-µl aliquot of undiluted DNA extract was used in PCR (30 cycles) with the universal bacterial rRNA gene primers 8F and 805R. The products were visualized after electrophoresis in a 2% agarose gel. Lane 1, *Bacillus subtilis*; lane 2, *Brevibacterium linens*; lane 3, *Listeria monocytogenes*; lane 4, *Lactobacillus plantarum*; lane 5, *Salmonella typhimurium*; lane 6, *E. coli*; lane 7, no-DNA control; lane M, 100-bp DNA ladder.

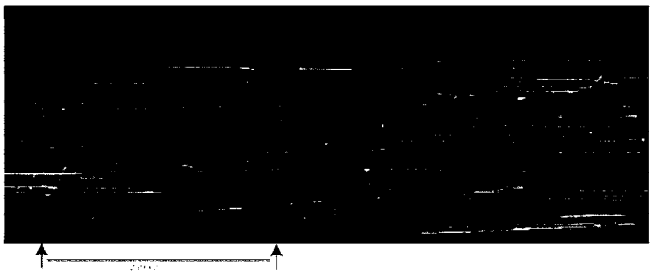

Figure 3. Long DNA strands of *E. coli* extracted using the QuickExtract™ Bacterial DNA Extraction Kit. Many strands were 400-500 kb.

and imaged using fluorescence microscopy. Whole-genome optical maps are constructed by assembling single-DNA-molecule optical maps generated from image analysis using specialized software. Optical maps are very useful as scaffolds for whole-genome shotgun sequence assembly, and they have become a high-value resource for assembling whole-genome sequences from short reads of next-generation sequencing technologies. They can also be used for whole-genome analysis to identify alterations such as insertions, deletions, inversions, duplications, or other genome rearrangements.[2] The QuickExtract Bacterial DNA Extraction Kit has been used to extract DNA for optical mapping from *E. coli*. Fig. 3 shows that the long DNA molecules extracted using this kit were immobilized on a optical-mapping surface (many molecules were 400-500 kb in length).

Conclusions

The QuickExtract Bacterial DNA Extraction Kit provides a simple method for extracting DNA from Gram-positive and Gram-negative bacteria. The kit incorporates Ready-Lyse Lysozyme, which has 200-fold higher specific activity than egg-white lysozyme. After a 15-minute lysis step at room temperature, the DNA obtained is ready for PCR or other downstream applications such as restriction digests, PFGE, and optical mapping. The kit has been tested on a range of bacteria and has been shown to produce very long DNA strands, due to the gentleness of the extraction method. The single-tube system does not use toxic organic solvents and is amenable to high-throughput applications.

References

1. Zhou, S. *et al.* (2003) *Genome Res.* **13**, 2142
2. Zhou, S. *et al.* (2004) *J. Bacteriol.* **186**, 7773.

Cat. #	Quantity
QuickExtract™ Bacterial DNA Extraction Kit	
QEB0905T	5 ml (50 extractions)
QEB09050	50 ml (500 extractions)

Exhibit 205

illumina

Illumina Acquires Epicentre Biotechnologies, Leading Provider of Nucleic Acid Sample Preparation Reagents and Specialty Enzymes

Combination Enhances Illumina's Sample Preparation and Enzyme Portfolio

SAN DIEGO, Jan 11, 2011 (BUSINESS WIRE) -- Illumina, Inc. (NASDAQ:ILMN) today announced that it has acquired Epicentre Biotechnologies, a leading provider of nucleic acid sample preparation reagents and specialty enzymes used in sequencing and microarray applications. A key component of the acquisition is direct access to Epicentre's proprietary Nextera(TM) technology for next-generation sequencing library preparation, which greatly simplifies genetic analysis workflows and reduces time from sample preparation to answer.

"As next-generation sequencing continues to improve in throughput and cost, there's a critical need for sample prep to evolve as well, to lower costs, handle higher sample volumes and reduce both hands-on and overall processing time," said Jay Flatley, President and CEO of Illumina. "Epicentre's Nextera technology provides a step-change improvement in library prep that will translate into greater ease of use, lower costs, and faster turnaround times for sequencing applications. In addition to Nextera, Epicentre is a leading supplier of specialty enzymes and kits that are beneficial to Illumina's technologies."

The rapid adoption of Nextera sequencing sample prep kits by existing Illumina sequencing customers is indicative of the cost effectiveness, ease of use, and efficiency of Nextera technology. With this patented technology, researchers can prepare sequencer-ready libraries from genomic DNA with less than 15 minutes of hands-on time - a significant timesaving compared to alternate methods. In addition, Nextera technology requires 10-100 times less starting DNA, which enables applications with limited starting material such as tumor biopsies, degraded DNA, or purified RNA. These unique features of Nextera sequencing library prep kits are all critical to advancing the evolution of next-generation sequencing.

The combined company will be uniquely positioned to offer an end-to-end solution for next-generation sequencing, microarray, and real time PCR applications. Epicentre's unique capabilities in enzyme engineering and sample preparation reagent development will complement Illumina's core platform expertise to comprehensively address the needs of researchers across their entire genetic analysis workflow.

About Illumina

Illumina (www.illumina.com) is a leading developer, manufacturer, and marketer of life science tools and integrated systems for large-scale analysis of genetic variation and function. We provide innovative sequencing and array-based solutions for genotyping, copy number variation analysis, methylation studies, gene expression profiling, and low-multiplex analysis of DNA, RNA, and protein. We also provide tools and services that are fueling advances in consumer genomics and diagnostics. Our technology and products accelerate genetic analysis research and its application, paving the way for molecular medicine and ultimately transforming healthcare.

Forward-Looking Statements

This release contains forward-looking statements that involve risks and uncertainties. Important factors that could cause actual results to differ materially from those in any forward-looking statements include challenges inherent in integrating Epicentre with our existing operations and the other factors that are detailed in our filings with the Securities and Exchange Commission, including our most recent filings on Forms 10-K and 10-Q, or in information disclosed in public conference calls, the date and time of which are released beforehand. We do not intend to update any forward-looking statements after the date of this release.

SOURCE: Illumina, Inc.

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Exhibit 206

illumina®

Verinata Health's verifi® Prenatal Test Available through the California Prenatal Screening Program

REDWOOD CITY, Calif.--(BUSINESS WIRE)--Nov. 1, 2013-- Illumina, Inc. (NASDAQ:ILMN) today announced that the verifi® prenatal test,[1] offered by Verinata Health, an Illumina company, will be available to pregnant women in California through the state's Prenatal Screening Program. The availability of the verifi® prenatal test represents a major advance in prenatal screening, providing pregnant women with genetic information about their babies without the risk associated with invasive testing such as amniocentesis or chorionic villus sampling (CVS).

Beginning today, all pregnant women in California at increased risk of carrying a fetus with trisomy 21 (Down syndrome) or trisomy 18 (Edwards syndrome), or who have had an ultrasound showing a large nuchal translucency, will have the option of receiving a non-invasive prenatal test.

"As a designated prenatal diagnosis center, we evaluated all of the different non-invasive prenatal tests, and selected the verifi® prenatal test based on the fact it provides the fastest turnaround time at three to six days, the lowest test failure rate at less than one percent, and an exceptionally responsive staff," said Dr. Art Karimi, Director of the Institute of Prenatal Diagnosis and Reproductive Genetics.

Women screening positive who desire a non-invasive prenatal test will be referred to a designated state-approved Prenatal Diagnostic Center, many of whom have elected to offer the verifi® prenatal test for their patients. The California Prenatal Screening Program screens nearly 400,000 women annually and is the largest prenatal screening program in the world.

"California is the first state to prioritize broad non-invasive prenatal testing as a secondary screening option for high-risk pregnant women," said Vance Vanier, M.D., Vice President of Global Commercial Operations for Verinata. "We applaud the state of California for their leadership through this comprehensive Prenatal Screening Program and we are pleased to bring reliable results from the verifi® prenatal test to women throughout the state."

The California Prenatal Screening Program is conducted through the state of California Genetic Disease Screening Program. The voluntary Prenatal Screening Program was established to provide pregnant women with improved screening for genetic disorders. California offers the only comprehensive prenatal screening program that includes follow-up for all non-negative test results, non-invasive prenatal testing and/or confirmatory testing through either amniocentesis or CVS, when indicated. In cases where a genetic disorder is detected prenatally, managing the high-risk pregnancy and ensuring delivery in a hospital with a Neonatal Intensive Care Unit with the appropriate level of care provides optimal patient outcomes for these families.

About Verinata Health

Verinata (www.verinata.com), a wholly-owned subsidiary of Illumina, Inc., is driven by a sole, extraordinary purpose – maternal and fetal health. Our initial focus is to develop and offer non-invasive tests for early identification of fetal chromosomal abnormalities using our proprietary technologies. We aim to reduce the anxiety associated with today's multi-step process, the unacceptable false-positive rates, the non-specific and sometimes confusing results of current prenatal screening methods, as well as the risk of current invasive procedures. We support national guidelines and the recent American College of Obstetricians and Gynecologists and the Society for Maternal-Fetal Medicine Committee Opinion that recommend cell-free DNA

prenatal testing as one option for use as a primary or secondary screening test in women at increased risk of aneuploidy. We believe women who desire such testing should be offered a single blood draw test with a definitive result. The verifi® prenatal test is available through a physician.

About Illumina

Illumina (www.illumina.com) is a leading developer, manufacturer, and marketer of life science tools and integrated systems for the analysis of genetic variation and function. We provide innovative sequencing and array-based solutions for genotyping, copy number variation analysis, methylation studies, gene expression profiling, and low-multiplex analysis of DNA, RNA, and protein. We also provide tools and services that are fueling advances in consumer genomics and diagnostics. Our technology and products accelerate genetic analysis research and its application, paving the way for molecular medicine and ultimately transforming healthcare.

Forward-Looking Statements

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[1] The verifi® prenatal test is a non-invasive blood test that analyzes DNA found in a pregnant woman's blood to detect chromosome abnormalities, including Down syndrome (trisomy 21 or T21), Edwards syndrome (trisomy 18 or T18), Patau syndrome (trisomy 13 or T13) and sex chromosome abnormalities, and can be used as early as 10 weeks of pregnancy.

Source: Illumina, Inc.

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Exhibit 207

illumina

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Illumina to Supply Natera with Sequencing Instruments and Consumables for Non-Invasive Prenatal Testing (NIPT)

Natera Will Continue to Use Illumina's HiSeq® 2500 for NIPT

SAN DIEGO--(BUSINESS WIRE)--Sep. 4, 2013-- Illumina, Inc. (NASDAQ:ILMN) and Natera, Inc. today announced they have entered into a three-year agreement whereby Illumina will supply Natera with the HiSeq® 2500 sequencing system and associated consumables for performing the non-invasive prenatal test (NIPT) Panorama™.

"We are pleased to be selected again as Natera's next-generation sequencing system provider, to support the growth of its Panorama™ test," said Nick Naclerio, Senior Vice President of Corporate and Venture Development at Illumina. "Illumina's goal is to enable the rapid growth of NIPT and the broader reproductive health market with technology, products, and ultimately FDA-approved in vitro diagnostic systems."

Added Matthew Rabinowitz, Ph.D., Chief Executive Officer of Natera, "We are pleased to continue working with Illumina and its next-generation sequencing technology. This deal enables a major expansion of Natera's laboratory capacity to support the fast-growing demand for our Panorama™ test."

About Illumina

Illumina (www.illumina.com) is a leading developer, manufacturer, and marketer of life science tools and integrated systems for the analysis of genetic variation and function. We provide innovative sequencing and array-based solutions for genotyping, copy number variation analysis, methylation studies, gene expression profiling, and low-multiplex analysis of DNA, RNA, and protein. We also provide tools and services that are fueling advances in consumer genomics and diagnostics. Our technology and products accelerate genetic analysis research and its application, paving the way for molecular medicine and ultimately transforming healthcare.

About Natera

Natera is a leading genetic testing company that has developed a proprietary bioinformatics-based technology (NATUS) to deliver accurate and comprehensive high-throughput testing for reproductive indications from tiny quantities of DNA. Natera operates a CLIA-certified laboratory in San Carlos, Calif., providing a host of preconception and prenatal genetic testing services. Test offerings include pre-implantation genetic diagnosis to identify chromosomal anomalies or inherited genetic conditions in embryos generated during an IVF cycle; products-of-conception testing following miscarriage to rapidly and extensively analyze fetal chromosomes in order to understand the cause of the pregnancy loss; non-invasive prenatal testing to determine paternity; carrier screening tests to detect whether parents carry genetic variations that may result in disease in the child; and Panorama, a safe, simple test for pregnant women that identifies the most common chromosomal anomalies in a fetus as early as nine weeks. Natera's PreNATUS clinical trial for non-invasive screening of fetal chromosomal anomalies is funded by the NIH and is being conducted by the leaders in maternal-fetal medicine in the United States. For more information, visit www.natera.com.

Forward-Looking Statements

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that could cause actual results to differ materially from those in any forward-looking statements are detailed in our filings with the Securities and Exchange Commission, including our most recent filings on Forms 10-K and 10-Q, or in information disclosed in public conference calls, the date and time of which are released beforehand. We do not intend to update any forward-looking statements after the date of this release.

Source: Illumina, Inc.

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Exhibit 208

Illumina

HistoGenetics Selects Illumina's MiSeq® System as Next-Generation Sequencing Platform of Choice

MiSeq Will Supplement HistoGenetics' Existing Human Leukocyte Antigen Sequence-Based Typing

SAN DIEGO & NEW YORK--(BUSINESS WIRE)--Jul. 22, 2013-- Illumina, Inc. (NASDAQ:ILMN) today announced that HistoGenetics, the leader in high-resolution sequence-based human leukocyte antigen (HLA) testing services, has selected the MiSeq sequencing system for use in its CLIA laboratory. HistoGenetics will deploy multiple MiSeqs to supplement its existing Sanger sequencing workflow to sequence HLA genes with high accuracy and speed. In addition to their utility in tissue matching for transplants, HLA gene variations have known associations with a wide variety of autoimmune diseases, infectious diseases, and some cancers.

Despite their importance, HLA genes have not been routinely typed at higher resolution because of the technical challenges of accurately discriminating between these highly related genes and their many alleles. HistoGenetics, one of the largest HLA typing laboratories in the world, has previously implemented Sanger sequencing as the sole method for higher resolution HLA typing. With its deployment of MiSeqs, HistoGenetics will lead the transition from Sanger sequencing to next-generation sequencing for HLA typing.

"We anticipate building on our leadership position and established success by leveraging the MiSeq platform," said Dr. Nezih Cereb, Chief Executive Officer and Co-founder of HistoGenetics. "Based on our experience with other technologies, we think the MiSeq's quality data output and simple workflow, combined with Illumina's commitment to work collaboratively, is the ideal solution to enable us to provide our customers with the superior results and turnaround time they require."

HistoGenetics currently provides two levels of resolution with HLA sequencing-based testing, including high-level and registry-level resolution. At high resolution, the most comprehensive level, all ambiguities are resolved in the antigen recognition sites, and new and rare alleles missed by other methods typically can be found. The American Society for Histocompatibility and Immunogenetics and the National Marrow Donor Program require this level of testing for stem cell transplants. At the registry level, which is used for unrelated donor registries (such as the Be The Match Registry™) and cord blood banks, a majority of ambiguities are resolved.

"By introducing the MiSeq, we will be able to provide gold-level high resolution typing to pre-transplant work-ups, as well as to registry donors, and improve the turnaround time for sample processing," added Dr. Cereb.

HistoGenetics' turnaround time for typing services is currently as short as three days for urgent samples. To date, HistoGenetics has typed more than 3 million samples and performed more than 13 million sequence-based typings that led to the discovery of more than 16,000 samples carrying a new variant of an HLA allele.

"Next-generation sequencing has the potential to transform HLA genotyping, and we believe Illumina's technology is well-positioned to help drive that change," said Matt Posard, Senior Vice President and General Manager of Illumina's Translational and Consumer Genomics business. "The MiSeq can make a significant difference in terms of accuracy and speed for production-scale HLA typing. We look forward to a successful relationship with HistoGenetics."

ILLUM-1781

About Illumina

Illumina (www.illumina.com) is a leading developer, manufacturer, and marketer of life science tools and integrated systems for the analysis of genetic variation and function. We provide innovative sequencing and array-based solutions for genotyping, copy number variation analysis, methylation studies, gene expression profiling, and low-multiplex analysis of DNA, RNA, and protein. We also provide tools and services that are fueling advances in consumer genomics and diagnostics. Our technology and products accelerate genetic analysis research and its application, paving the way for molecular medicine and ultimately transforming healthcare.

About HistoGenetics, LLC

HistoGenetics (www.histogenetics.com) is the global leader in HLA sequence-based typing (SBT). As a pioneer the field, the company has provided its services for donor registries, donor centers, cord blood typing, transplant centers, HLA laboratories and pharmacogenomics applications. To date, HistoGenetics has performed more than 13 million SBTs and discovered 16,000 samples carrying new alleles. The company was founded by Dr. Soo Young Yang, who serves as Chairman, and Dr. Nezih Cereb, Chief Executive Officer.

Forward-Looking Statements

This release may contain forward looking statements that involve risks and uncertainties. Important factors that could cause actual results to differ materially from those in any forward-looking statements are detailed in our filings with the Securities and Exchange Commission, including our most recent filings on Forms 10-K and 10-Q, or in information disclosed in public conference calls, the date and time of which are released beforehand. We do not intend to update any forward-looking statements after the date of this release.

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Exhibit 209

illumina

Illumina Applies CE Mark to MiSeqDx™ Cystic Fibrosis System

SAN DIEGO--(BUSINESS WIRE)--Jul. 1, 2013-- Illumina, Inc. (NASDAQ:ILMN) today announced that it declared conformity with the requirements of the IVD Directive on June 26, 2013 and has applied the CE mark for the MiSeqDx Cystic Fibrosis System. The company is finalizing plans to commercialize the product in a number of European countries that require CE marking. The MiSeqDx Cystic Fibrosis System consists of the MiSeqDx next-generation sequencing instrument, two assays (the MiSeqDx Cystic Fibrosis Diagnostic Assay and the MiSeqDx Cystic Fibrosis Carrier Screening Assay), and associated software. Developed for the clinical molecular diagnostics market, the system leverages Illumina's targeted resequencing chemistry to provide rapid and accurate identification of variants in the cystic fibrosis transmembrane conductance regulator (CFTR) gene.

The MiSeqDx Cystic Fibrosis Diagnostic Assay provides highly accurate and more actionable clinical information than cystic fibrosis genotyping assays previously available in Europe and offers a comprehensive view of all CFTR variants present in patient samples. The MiSeqDx Cystic Fibrosis Carrier Screening Assay is designed for simultaneous detection of 162 functionally-verified, clinically-relevant variants within the CFTR gene, including all those currently recommended for carrier screening purposes in U.S. guidelines developed by the American College of Medical Genetics (ACMG) and the American Congress of Obstetricians and Gynecologists (ACOG).

"The MiSeqDx Cystic Fibrosis System empowers more precise medicine, and shortens the path to a clinical diagnosis, by sequencing the entire CFTR gene," said Greg Heath, Senior Vice President and General Manager of the Illumina Diagnostics business. "The system provides clinicians and genetic counselors more definitive results to inform patient care. Now that we have achieved this regulatory milestone, the MiSeqDx will serve as the foundation for future Illumina and partner-developed content. We plan to expand our offering with additional assays."

Cystic fibrosis is a life-threatening, inherited single-gene disorder that affects more than 70,000 people worldwide. Caused by mutations in the CFTR gene, the disease has a wide clinical presentation depending on which CFTR gene mutations are present. Most CFTR mutations are rare, and their distribution and frequency vary among different world populations.

The MiSeqDx Cystic Fibrosis System will be available for order in Europe beginning in July 2013. For more information, please visit: www.illumina.com/cysticfibrosis.

About Illumina

Illumina (www.illumina.com) is a leading developer, manufacturer, and marketer of life science tools and integrated systems for the analysis of genetic variation and function. We provide innovative sequencing and array-based solutions for genotyping, copy number variation analysis, methylation studies, gene expression profiling, and low-multiplex analysis of DNA, RNA, and protein. We also provide tools and services that are fueling advances in consumer genomics and diagnostics. Our technology and products accelerate genetic analysis research and its application, paving the way for molecular medicine and ultimately transforming healthcare.

Forward-Looking Statements

This release may contain forward looking statements that involve risks and uncertainties. Important factors

that could cause actual results to differ materially from those in any forward-looking statements are detailed in our filings with the Securities and Exchange Commission, including our most recent filings on Forms 10-K and 10-Q, or in information disclosed in public conference calls, the date and time of which are released beforehand. We do not intend to update any forward-looking statements after the date of this release.

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Exhibit 210

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Illumina Applies CE Mark to Expanded MiSeqDx™ System

New Application Facilitates Development of Diagnostic Tests

SAN DIEGO--(BUSINESS WIRE)--Sep. 25, 2013-- Illumina, Inc. (NASDAQ:ILMN) today announced that it declared conformity with the requirements of the IVD Directive and has applied the CE mark to expand the use of the MiSeqDx system in clinical laboratories. These laboratories are now able to develop diagnostic tests using Illumina's new MiSeqDx Universal Kit on the MiSeqDx. The MiSeqDx Universal Kit joins the MiSeqDx Cystic Fibrosis Carrier Screening Assay and the MiSeqDx Cystic Fibrosis Diagnostic Assay in Illumina's expanding line of clinical products available for the MiSeqDx.

The MiSeqDx uses Illumina's industry-leading sequencing by synthesis chemistry, the sequencing technology most widely adopted by genetics researchers worldwide. The instrument offers users the ability to run diagnostic or research applications on a single, easy-to-use system. The MiSeqDx Universal Kit includes the library preparation reagents, sample index primers, and sequencing consumables needed for laboratories to develop amplicon assays on an *in vitro* diagnostic platform.

"The MiSeqDx demonstrates Illumina's continuing commitment to the clinical adoption of next-generation sequencing technologies. The company's validated products provide reliability and flexibility to our clinical customers," said Greg Heath, Senior Vice President and General Manager of Illumina's Diagnostics business. "The MiSeqDx greatly expands the opportunity for clinical laboratories to offer diagnostic tests for wide-ranging applications including genetic and infectious diseases and cancer."

The new functionality for the MiSeqDx, enabled by the MiSeqDx Universal Kit, will be commercialized in a number of European countries that require the CE mark, and will begin shipping in Europe beginning in November 2013. For more information, visit www.illumina.com/MiSeqDxPlatform.

About Illumina

Illumina (www.illumina.com) is a leading developer, manufacturer, and marketer of life science tools and integrated systems for the analysis of genetic variation and function. We provide innovative sequencing and array-based solutions for genotyping, copy number variation analysis, methylation studies, gene expression profiling, and low-multiplex analysis of DNA, RNA, and protein. We also provide tools and services that are fueling advances in consumer genomics and diagnostics. Our technology and products accelerate genetic analysis research and its application, paving the way for molecular medicine and ultimately transforming healthcare.

Forward-Looking Statements

This release contains forward-looking statements that involve risks and uncertainties. Examples of forward-looking statements include, but are not limited to, statements we make regarding the expected order availability date. Important factors that could cause actual results to differ materially from those in any forward-looking statements include challenges inherent in developing and launching new products and services and the other factors that are detailed in our filings with the Securities and Exchange Commission, including our most recent filings on Forms 10-K and 10-Q, or in information disclosed in public conference calls, the date and time of which are released beforehand. We do not intend to update any forward-looking statements after the date of this release.

ILLUM-1775

Source: Illumina, Inc.

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Exhibit 211

illumina

Illumina to Provide Next-Generation Sequencing (NGS) Technologies to Quest Diagnostics

Quest to Use Illumina NGS Platform to Create New Lab Test Services

SAN DIEGO--(BUSINESS WIRE)--Jan. 9, 2014-- Illumina, Inc. (NASDAQ:ILMN) today announced it has entered into a multi-year licensing agreement with Quest Diagnostics (NYSE: DGX), the world's leading provider of diagnostic information services, related to the use of Illumina's next-generation sequencing technology for clinical laboratory testing.

Among the terms, Quest will have broad rights to use Illumina's sequencing and genotyping technology, including the MiSeq® platform and related consumables, to develop, validate and offer molecular laboratory-developed tests for several disease states to clinicians in the United States. Quest also has rights to use the Illumina equipment as biomarker test services in clinical trials performed on behalf of its pharmaceutical, biotechnology and other clients.

"Quest's science and innovation strategy is focused on accelerating the introduction of clinically meaningful diagnostic solutions that aid the management of the individual patient across a continuum of care, promoting better outcomes," said Jay Wohlgemuth, M.D., Senior Vice President, Science and Innovation, Quest Diagnostics. "Investing in next-generation sequencing, which is increasingly used in several clinical areas as well as clinical trials, is a key element of our strategy. Illumina is a leader in NGS innovation, and this new broad agreement will give us a greater level of flexibility to build on our record of success in NGS to include several diseases where sequencing-based molecular testing can meaningfully improve clinical care."

In 2013, Quest introduced new clinical testing services based on Illumina next-generation sequencing technology under limited agreements. The new agreement broadens the range of applications for which Quest may use the Illumina technology, including several cancers and neurological and women's health disorders.

DNA sequencing is a process that determines the order of individual nucleotides of DNA molecules across a single gene, several genes or a full genome. Unlike older technologies, next-generation sequencing platforms can sequence multiple molecules simultaneously, providing greater information about the genetic basis of disease for lower cost.

"We are excited to support Quest's further expansion into next-generation sequencing," said Nick Naclerio, Illumina's Senior Vice President of Corporate and Venture Development. "Quest's advanced development capabilities and vast clinician network will help bring the power of next-generation sequencing to an ever larger range of patients around the U.S."

About Illumina

Illumina (www.illumina.com) is a leading developer, manufacturer, and marketer of life science tools and integrated systems for the analysis of genetic variation and function. We provide innovative sequencing and array-based solutions for genotyping, copy number variation analysis, methylation studies, gene expression profiling, and low-multiplex analysis of DNA, RNA, and protein. We also provide tools and services that are fueling advances in consumer genomics and diagnostics. Our technology and products accelerate genetic analysis research and its application, paving the way for molecular medicine and ultimately transforming healthcare.

Forward-Looking Statements

This release may contain forward looking statements that involve risks and uncertainties. Important factors that could cause actual results to differ materially from those in any forward-looking statements are detailed in our filings with the Securities and Exchange Commission, including our most recent filings on Forms 10-K and 10-Q, or in information disclosed in public conference calls, the date and time of which are released beforehand. We do not intend to update any forward-looking statements after the date of this release.

Source: Illumina, Inc.

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Exhibit 212

Illumina®

Illumina Unveils Strategic Roadmap for Market Expansion

Company Positions for Growth in Key Genomics Segments, Introduces New Workflow Solutions at Investor Day

SAN DIEGO--(BUSINESS WIRE)--Jan. 16, 2014-- Illumina, Inc. (NASDAQ:ILMN) today unveiled a strategic roadmap for moving next-generation sequencing (NGS) into new markets, leveraging its technology leadership and new organizational alignment around those markets to drive growth. During an investor day where executives presented plans for this growth, Illumina also shared workflow innovations designed to simplify the sequencing experience and new market solutions derived from the company's sample to answer technology base.

"Earlier this week we announced two transformative platforms that redefine next-generation sequencing, with the addition of the NextSeq™ 500 System and the HiSeq® X Ten to our market leading portfolio. Today we previewed additional innovations that position us to seize opportunities across research and clinical markets, as well as to deliver the industry's simplest, most efficient sequencing experience to our customers," said Jay Flatley, Illumina's Chief Executive Officer.

Expanding the Use of Next-Generation Sequencing (NGS)

Illumina shared the following strategies and innovations around its core market targets.

In reproductive health, Illumina will expand its offerings based on the verifi® laboratory-developed non-invasive prenatal test (NIPT), submitting an IVD version on the HiSeq® 2500 system for FDA premarket approval by the end of 2014. It also will offer an NGS-based solution for preimplantation genetic screening, VeriSeq™ PGS, launching initially on the MiSeq® system, as well as an array-based karyomapping single gene preimplantation genetic diagnosis (PGD) solution to identify embryos with genes associated with severe genetic disorders.

In oncology, the company previewed a targeted sequencing strategy that includes supporting the clinical community with content. Illumina is also working in collaboration with the oncology community to develop test guidelines and infrastructure to build actionable cancer genomics solutions.

In emerging markets, Illumina will launch a human leukocyte antigen (HLA) typing product in mid-2014 for laboratories seeking next-generation sequencing on the MiSeq® platform that will be faster, less expensive, and more accurate than current technologies. Additionally, the company introduced the MiSeq® Forensic Genomics System (MiSeq FGx), the first targeted forensic NGS system, which will simultaneously interrogate short tandem repeats and other valuable genetic markers to provide more comprehensive identification information from both challenging and standard biological samples. The complete sample to answer solution, including consumables and software, is expected to be available in the first six months of 2014.

Simplifying the Sample to Answer Experience

Illumina previewed the following products that simplify the end-user experience for sample preparation and analytics and further solidify the technology tool kit that can be used across markets to address customers' needs for integration.

NeoPrep™ is a push-button library preparation system that provides a radically simpler workflow to go from

DNA or RNA to libraries ready for sequencing. It will prepare up to 16 libraries per run, starting from as little as 1ng of input for some assays. The first kits for NeoPrep will be TruSeq PCR-Free and TruSeq Nano, with other TruSeq and Nextera kits to follow. NeoPrep, expected to be available summer 2014, is an important step on the path to offering integrated, sample to answer solutions.

BaseSpace® OnSite provides the BaseSpace® experience in a simple informatics appliance, enabling NGS users to securely stream data directly to a local solution for storing, analyzing, and interpreting genomic sequence data. BaseSpace® Onsite represents a turnkey solution and will be available in the first quarter of 2014.

BaseSpace® Core Apps transform sequence data processing into a simple push-button process for the most frequently used sequencing applications. These highly optimized apps eliminate time spent configuring and maintaining software, and support RNA-sequencing, exome analysis, whole genome sequencing, and tumor/normal analysis. BaseSpace® Core Apps are available for BaseSpace® including BaseSpace® Onsite.

Paving the Way for Genomics in the Clinic

In November 2013, Illumina became the first company to receive FDA premarket clearance for a next-generation sequencing platform with its MiSeqDx system. Illumina will continue to pave the way for NGS in regulated markets with further submissions to the FDA, beginning with NIPT on the HiSeq® 2500, while also driving standards for the use of NGS in the clinic. In addition, the company will continue to build the infrastructure and means with which to deliver a best-in-class regulated products pipeline through its IVD Development group.

"Illumina's technology is already making an impact in identifying undiagnosed diseases, and we will soon see it transforming fields like oncology and complex disease," said Francis deSouza, President of Illumina. "The strategic roadmap presented today demonstrates our commitment to making NGS ubiquitous across markets, delivering simplified and integrated solutions to our customers, and paving the way for a new era in health care."

About Illumina

Illumina (www.illumina.com) is a leading developer, manufacturer, and marketer of life science tools and integrated systems for the analysis of genetic variation and function. We provide innovative sequencing and array-based solutions for genotyping, copy number variation analysis, methylation studies, gene expression profiling, and low-multiplex analysis of DNA, RNA, and protein. We also provide tools and services that are fueling advances in consumer genomics and diagnostics. Our technology and products accelerate genetic analysis research and its application, paving the way for molecular medicine and ultimately transforming healthcare.

Forward-Looking Statements

This release contains forward looking statements that involve risks and uncertainties. Examples of forward-looking statements include, but are not limited to, statements we make regarding the expected availability dates for new products and services and FDA submission dates and intentions for certain products and services. Important factors that could cause actual results to differ materially from those in any forward-looking statements include challenges inherent in developing, manufacturing, and launching new products and services and the other factors that are detailed in our filings with the Securities and Exchange Commission, including our most recent filings on Forms 10-K and 10-Q, or in information disclosed in public conference calls, the date and time of which are released beforehand. We do not intend to update any forward-looking statements after the date of this release.

ILLUM-1816

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Exhibit 213

illumina

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Amgen and Illumina Enter Agreement to Develop Oncology Companion Diagnostic Test

Illumina to Develop In Vitro Diagnostic (IVD) Kit on its FDA-Cleared MiSeqDx™ Next-Generation Sequencing (NGS) Instrument for Amgen's Vectibix (Panitumumab)

SAN DIEGO--(BUSINESS WIRE)--Jan. 15, 2014-- Illumina, Inc. (NASDAQ:ILMN) today announced it has entered into an agreement with Amgen Inc. to develop and commercialize a multigene, NGS-based test as a companion diagnostic for Vectibix (panitumumab), a fully human anti-EGFR monoclonal antibody therapeutic for the treatment of metastatic colorectal cancer approved in the US and EU. Under the terms of the collaboration, premarket approval of the test by the US Food and Drug Administration (FDA) and other regulatory bodies will be sought. The test will be developed for use with Illumina's MiSeqDx™ instrument, which received premarket clearance from the FDA on November 19, 2013 and was CE-marked for the European Union on July 16, 2013.

The collaboration will seek to validate a test platform that can identify *RAS* mutation status of patients who would be appropriate to receive Vectibix. Following CE marking and FDA approval, Illumina plans to commercialize the test with a focus on US and EU markets. This collaboration also demonstrates Illumina's commitment to partnering with therapeutics companies and to bringing its leading NGS technologies into oncology care.

"This collaboration is consistent with our strategy to bring the power of NGS to clinical diagnostics," said Nick Naclerio, Senior Vice President of Corporate and Venture Development and General Manager of Illumina's Enterprise Informatics business at Illumina. "With three FDA-cleared NGS products in our portfolio, we intend to complement internal development programs by taking products developed with external partners through the FDA submission process. Amgen is a key partner given their leadership in therapeutic development and strong track record in commercializing novel products."

Dr. Rick Klausner, Chief Medical Officer and acting General Manager of Illumina's Oncology business, added, "NGS provides an advantage over traditional technologies that typically detect only one or a few variants. Multigene NGS panels provide a more complete genetic picture of each patient's tumor, which can better inform critical treatment decisions. We see the development of multigene diagnostic tests as a natural evolution to improve cancer care and outcomes."

About Illumina

Illumina (www.illumina.com) is a leading developer, manufacturer, and marketer of life science tools and integrated systems for the analysis of genetic variation and function. We provide innovative sequencing and array-based solutions for genotyping, copy number variation analysis, methylation studies, gene expression profiling, and low-multiplex analysis of DNA, RNA, and protein. We also provide tools and services that are fueling advances in consumer genomics and diagnostics. Our technology and products accelerate genetic analysis research and its application, paving the way for molecular medicine and ultimately transforming healthcare.

Forward-Looking Statements

This release may contain forward looking statements that involve risks and uncertainties. Important factors that could cause actual results to differ materially from those in any forward-looking statements are detailed

in our filings with the Securities and Exchange Commission, including our most recent filings on Forms 10-K and 10-Q, or in information disclosed in public conference calls, the date and time of which are released beforehand. We do not intend to update any forward-looking statements after the date of this release.

Source: Illumina, Inc.

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Exhibit 214

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GoldenGate® Indexing Assay Increases Sample Throughput

By combining sample indexing within the robust GoldenGate Assay, automation capabilities, and positive sample tracking with LIMS support, GoldenGate Indexing provides the highest level of throughput at the most affordable cost for low- to mid-plex custom genotyping screening.

Highlights

- **Highest Throughput:** Greater than 2,000 samples per day
- **Highly Flexible:** Advanced multiplexing enables analysis of 96, 192, or 384 loci per sample
- **Fully Integrated:** Automated platform incorporating LIMS
- **Proven Technology:** Robust assay used in genotyping centers worldwide with average call rates > 99%

Introduction

The GoldenGate Genotyping Assay is a highly successful genotyping technology proven in labs worldwide. In fact, it was used to make major contributions in the HapMap Project. Building on this strong foundation, the GoldenGate Indexing Assay allows researchers to pool multiple samples, increasing the number of samples that can be analyzed in a single run. With advanced automation and updates to Illumina LIMS (Laboratory Information Management System) to accommodate this new step, along with positive sample tracking, researchers now have the ability to screen up to 16 times as many samples per reaction as they could with the standard GoldenGate Assay. This dramatically increases throughput from 288 samples per day to greater than 2,000. Overall, researchers will realize a significant decrease in cost while maximizing throughput for low-complexity sample screening.

How GoldenGate Indexing works

GoldenGate Indexing, based on Illumina's BeadArray™ technology, maximizes the throughput of the original GoldenGate Assay (Figures 1 and 2). BeadArray technology uses illumiCodes, unique 23-bp single-stranded DNA oligos, to correctly identify each DNA sample as well as the loci being interrogated. Because each illumiCode is distinctive, multiplexing is possible. Current plexity ranges for GoldenGate Indexing include 96-plex, 192-plex, and 384-plex.

IllumiCodes Enable Pooling

During sample preparation, primers containing illumiCodes and universal primer sites are hybridized to the DNA. Individual samples can be processed using oligonucleotide assay pools containing non-overlapping illumiCodes. This enables pooling of multiple samples into a single well. Since the illumiCodes are discreet within the well, each sample can be independently examined during downstream analysis.

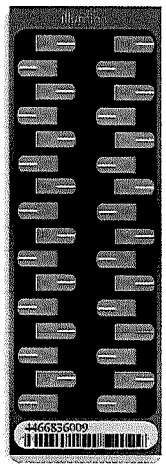
Amplification and Signal Reading

Prepared samples are amplified using universal PCR primers labeled with Cy3 and Cy5 fluorescent dyes. The resulting fluorescently labeled PCR products are hybridized to a Universal BeadChip. The BeadChip contains randomly assembled universal beads, each displaying an illumiCode corresponding to a specific loci. DNA will bind to the bead containing the complementary illumiCode. Unbound DNA is removed and the remaining fluorescence signal levels read on the iScan system or BeadArray Reader for individual SNP genotype readout. This information is then analyzed for automated genotype clustering and calling. The entire assay can be completed in as few as three days.

Illumina LIMS and Automation Control

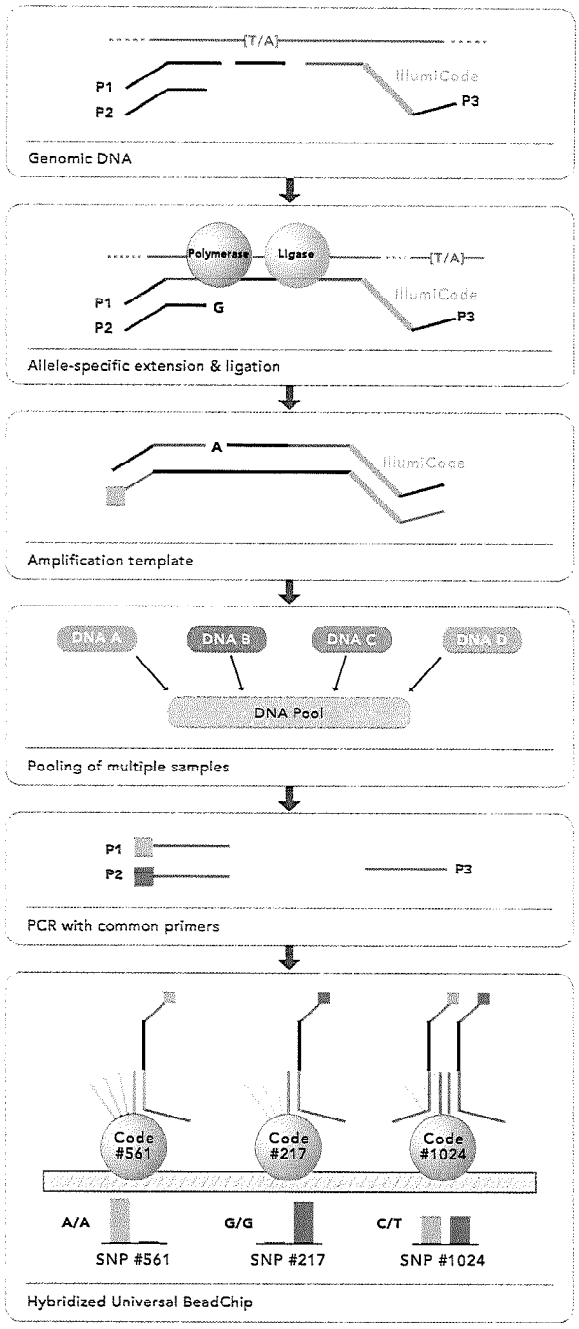
The GoldenGate Indexing assay is highly automated, maximizing throughput. Robotic liquid handlers automatically process samples through each step of the assay, enabling the assay to run with minimal hands-on operation. Pre-amplification steps are performed via a larger 96-tip–based robot, and post-amplification steps via a standard 8-tip robot.

Figure 1: Universal-32 beadchip



GoldenGate Indexing Assay products are hybridized onto the Universal-32 BeadChip for individual SNP genotype readout.

Figure2: Goldengate Indexing Assay Workflow



In the GoldenGate Indexing assay, a unique set of illumiCodes is used to identify each sample, allowing multiple samples to be pooled prior to amplification. This, along with automation capabilities, greatly increases the assay throughput.

Illumina's integrated LIMS delivers state-of-the-art management and tracking to ensure the highest quality data, efficient data acquisition, and significant savings in time and lab resources. As a ready-to-use solution, Illumina LIMS includes the server hardware and software needed to accurately manage and enforce assay workflow. Illumina LIMS provides the excellent project management capabilities needed to effectively manage samples from receipt through analysis.

Positive sample tracking by Illumina LIMS is achieved by direct control of the automated liquid handling robots, ensuring samples are automatically processed and queued to the proper step and eliminating error due to manual mishandling. LIMS tracks time-stamped lab transactions with associated user information by offering user authentication either through Illumina LIMS or through existing Windows password authentication. In addition, LIMS uses a barcode system for accurate sample identification in downstream analysis. Illumina provides software updates to accommodate new product formats and workflows, saving the time and cost of in-house software development. By managing time-consuming and error-prone sample/data handling from beginning to end, the LIMS environment greatly increases confidence and efficiency in genotyping studies.

Reliable Analysis

GoldenGate Indexing Assay results can be analyzed in the genotyping module of GenomeStudio™ data analysis software. This module recognizes each illumiCode and displays individual genotyping data for the pooled samples. In addition, GenomeStudio software features the ability to normalize raw data and perform clustering and automated genotyping calling.

Data Quality

GoldenGate Indexing Assays produce the same high-quality data as the original GoldenGate Assay. This ensures that important SNPs are captured and a high call accuracy is achieved (Table 1).

Summary

GoldenGate Indexing provides a fully automated, affordable assay for high-throughput low- to mid-plex genotype screening. Using a proven assay, researchers can now screen thousands of samples in just a few days, while still obtaining the high-quality data they require.

Additional Information

To learn how you can access the power of the GoldenGate Indexing Assay, visit www.illumina.com or contact us at the address below.

Figure 1: Specifications for the Goldengate Indexing Assay

Parameter	Specification
Average Call Rate	> 99%
Reproducibility	> 99.9%
Mendialian Inconsistencies	< 0.1%

Ordering Information

Product	Plexity	No. of Samples Indexed	No. of Samples Processed per Kit	Catalog No.
GoldenGate Indexing Assay Kit, Custom	96	16	768	GT-222-1003
	192	8	768	GT-222-1004
	384	4	768	GT-222-1005

Illumina, Inc. • 9885 Towne Centre Drive, San Diego, CA 92121 USA • 1.800.809.4566 toll-free • 1.858.202.4566 tel • techsupport@illumina.com • illumina.com

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 Pub. No. 370-2009-009 Current as of 29 July 2010

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FGED SOCIETY

Minimum Information About a Microarray Experiment - MIAME

MIAME describes the **Minimum Information About a Microarray Experiment** that is needed to enable the interpretation of the results of the experiment unambiguously and potentially to reproduce the experiment. [Brazma et al., Nature Genetics]

The six most critical elements contributing towards MIAME are:

1. The raw data for each hybridisation (e.g., CEL or GPR files)
2. The final processed (normalised) data for the set of hybridisations in the experiment (study) (e.g., the gene expression data matrix used to draw the conclusions from the study)
3. The essential sample annotation including experimental factors and their values (e.g., compound and dose in a dose response experiment)
4. The experimental design including sample data relationships (e.g., which raw data file relates to which sample, which hybridisations are technical, which are biological replicates)
5. Sufficient annotation of the array (e.g., gene identifiers, genomic coordinates, probe oligonucleotide sequences or reference commercial array catalog number)
6. The essential laboratory and data processing protocols (e.g., what normalisation method has been used to obtain the final processed data)

For more details, see MIAME 2.0.

MIAME does not specify a particular format, however, obviously the data are more usable, if it is encoded in a way that the essential information specified by MIAME can be accessed easily. FGED recommends the use of MAGE-TAB format, which is based on spreadsheets, or MAGE-ML.

MIAME also does not specify any particular terminology, however for automated data exchange the use of standard controlled vocabularies and ontologies are desirable. FGED recommends the use of MGED Ontology for the description of the key experimental concepts, and where possible ontologies developed by the respective community for describing terms such as anatomy, disease, chemical compounds etc (see OBO page for more detail).

MIAME In Practice

The public repositories ArrayExpress at the EBI (UK), GEO at NCBI (US) and CIBEX at DDBJ (Japan) are designed to accept, hold and distribute MIAME compliant microarray data.

There is a number of software tools supporting MIAME requirements under development.

Open letter to the scientific journals about submitting MIAME compliant data [RTF 14kb] [HTML 12kb].

These journals require MIAME compliant data as a condition for publishing microarray based papers.

ArrayExpress service to journals [PDF 508kb].

MIAME extensions or related activities

- MIBBI Project.
- MIAME CGH checklist [DOC 72kb] [PDF 61kb]
- MIAME ChIP-on-chip checklist [DOC 92kb] [PDF 64kb]
- MIAME proposal for random arrays [DOC 66kb] [PDF 141kb]
- MIAME/Tox and MIAME/Env
- MIAME/Plant Whitepaper:

ILLUM-0859

A MIAME plant specification white paper has been produced and submitted to Plant Methods. [PDF 51kb] [Commentary PDF 25kb] [PPT 23kb]

As a microarray manufacturer Illumina fully appreciates the importance of MIAME as a standard necessary for meaningful interpretation and verification of microarray experiments. Our goal is to become a MIAME compliant platform when we release our gene expression related products. Therefore, I created this document to introduce the MIAME workgroup to some concepts which we think can extend the current version of the standard and enable compliance by our customers. I include a description of the Illumina array, and I would like to seek from your workgroup comments of whether they consider such description to be MIAME compliant.

Terms Needed in the Description of the Illumina Microarray Platform

- Random Array – this concept implies that features assemble at random locations on each physical array manufactured. In terms of changes to the Array Description part of MIAME, it would require an additional array property – 'Array Geometry'. Describing array geometry as Random will allow us to introduce a Virtual Array Geometry placing all features present in the array onto a fixed virtual rectangular grid which makes it analogous to an ordered array. This will spare our customers the need to submit array description data with every physical array they use (it is impossible to reproduce feature locations so it does not affect verification of experiments ability). Also, virtual arrays can be helpful in describing flow cytometry gene expression data.
- Universal Array – this concept is not unique to Illumina and implies that probes on the array are used indirectly as address readout reporters rather than direct hybridization target quantifiers. This notion can help to create a placeholder for additional sequence information required to interpret microarray data. In case of Illumina we refer to address reporters as IllumiCode capture sequences.
- Generalized Reporter – this concept allows characterization of various parts of the sequence generated on the array. In particular, we propose to split reporter sequence into hybridizing part and auxiliary part. In figure 1a below, the reporter's hybridizing sequence coincides with the gene specific portion while the auxiliary sequence functions as an IllumiCode capture sequence. Another possible function for the auxiliary sequence is to provide padding between the substrate and the gene specific sequence.

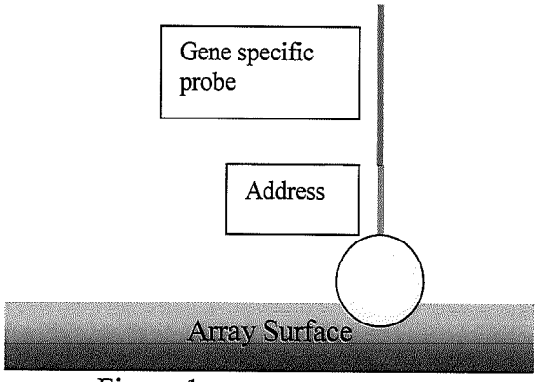


Figure 1.a

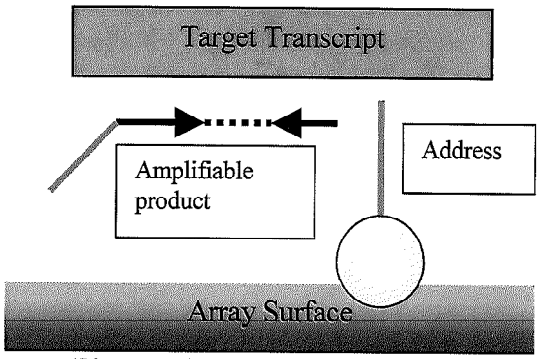


Figure 1.b

Figure 1b represents a typical universal array. In this case the sequence hybridizing to the gene specific part is not attached to the array. The reporter sequence does not have an auxiliary part, however, it serves as IllumiCode capture sequences. This could be described through an additional reporter sequence property - 'hybridization type'. It would be included in the experiment description part of MIAME. Illumina plans to release probe sequence information for gene specific portions, however, for intellectual property considerations we cannot release sequences for our IllumiCode capture sequences.

- Probe orientation – As a minor addition, we think MIAME should add additional reporter sequence property describing orientation (3' outward or inward) of probes with respect to the array surface.

To summarize these concepts here is the proposed content of Illumina's array description: Blue font represents additions either new to the current MIAME content or having new interpretation.

1. **Array related information**
   Array Design Name= IlluminaTest
   Platform Type= DNA Oligonucleotide
   Surface and Coating Specification= silica beads, diameter=3μm.
   Physical Dimension= hexagon, diameter=1.5mm
   Array Geometry= Random (means that locations described below are virtual)
   Number of Features on the Array= Number of distinct feature types (number of replicates per distinct feature is random)
   Availability= provided by Illumina Inc.
2. **(a) For each reporter type**
   Reporter Type = synthetic DNA oligonucleotide
   Number of strands = 1
   (b) For each reporter type
   Identifier = illumina's unique identifier
   Hybridization type = Universal or Specific
   Auxiliary sequence function = (None, padding, address, etc.)
   Auxiliary sequence position = proximal to surface (if exists)

Auxiliary sequence length= sequence length if exists, 0 otherwise
Specific sequence=AGCT… (gene specific portion of the sequence if exists)
Sequence orientation= 5' proximal to surface

3. **(a) For each feature type**
   Dimension = diameter 3μm
   (b) For each feature
   Reporter identifier
   Location on the virtual array.
4. **For each composite sequence**
   List of reporters
   Reference sequence
   Gene name
5. **Control Elements**
   Position of the feature on virtual array
   Control type
   Control qualifier

In the Experiment Description section we propose to introduce the following descriptor:

For each universal reporter:
Specific sequence
Element of the array expected to hybridize to it

In terms of raw data, Illumina will provide customers with gene expression data tables which would list for all features described in array descriptor:

- Feature Identifier
- Average Intensity
- Number of Beads
- Bead to Bead Standard Deviation
- Detection p-value.

In addition, customers will have raw images, so they will be able to examine images for scratches, intensity gradients, etc. We will make our extraction algorithms and normalization routines public.

Exhibit 215

www.illumina.com

Illuminotes

April 2011

Product News

New TruSeq™ Enrichment Demo Kits

New demo kits allow customers to try TruSeq Exome Enrichment on their own samples. Limited to one per laboratory, the kit provides TruSeq DNA Sample Preparation and TruSeq Exome Enrichment reagents for up to 24 samples. Contact your local Account Manager or Illumina customer support for more information.

Final Order Date for RatRef-12

The final order date for RatRef-12 BeadChips is May 31, 2011, or while supplies last, with a final shipment date of June 30, 2011. Contact your local Account Manager or Illumina customer support for assistance in transitioning to RNA sequencing and the TruSeq RNA Sample Prep Kit for your next gene expression profiling experiment.

Final Order Date for Human660W-Quad, Human610-Quad, Human1M-Duo, Human1MDuo+, and HumanHap550-Quad+ BeadChips

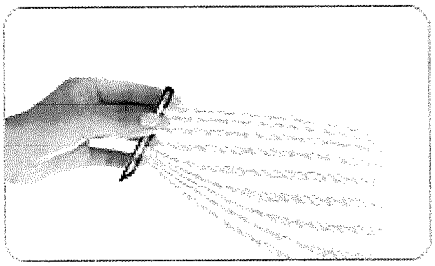
The final order date for these Infinium® BeadChips is April 29, 2011, or while supplies last, with a final shipment date of June 30, 2011. Contact your local Account Manager or Illumina customer support for assistance in transitioning to the Omni family of microarrays for GWAS projects.

Customer Satisfaction

Enhanced HiSeq™ Flow Cell QC and Manufacturing

We are continually improving and updating our processes to deliver the highest quality products. Our commitment to customer satisfaction also involves listening to your concerns and correcting product issues. This new section of Illuminotes is devoted to communicating those solutions to you in a timely fashion.

Recently, some HiSeq customers experienced issues with flow cell performance. We made modifications to our HiSeq flow cell quality control and manufacturing processes, resolving the edge-effect issues and supporting more uniform clustering. Since February 2011, all shipped HiSeq Cluster Kits have contained updated flow cells. We are continuing to replace the flow cells of impacted customers. For more



Start Using RNA Sequencing

Learn how other researchers are benefiting from RNA-Seq by signing up for Illumina's three-part RNA Sequencing webinar series.

New Products

- MiSeq™ Personal Sequencing System
- Infinium DNA Restoration Solution
- TruSeq DNA Fragmentation and Size Selection Automation

Illumina Seminar Series

Registration is open for these upcoming seminars:

Sequencing Seminars

- Berlin – May 3
- Lausanne – May 4
- Uppsala – May 11
- Copenhagen – May 12
- Brussels – May 18
- Amsterdam – May 19
- Paris – June 15
- Milan – June 16
- Barcelona – June 22
- Rome – June 23

ILLUM-0864

information, contact Illumina technical support.

iDEA Challenge Conference

Register Now for the iDEA Conference - June 14-15, 2011 San Diego, CA
The iDEA Conference will showcase innovative ideas for the visualization and analysis of Illumina datasets from around the world, highlighted by the announcement of the six iDEA Challenge award winners. Space is limited, so register today!

Product Literature

Optimize Targeted Resequencing
Maximize the efficiency of your targeted resequencing studies with the new TruSeq Exome Enrichment Kit. An updated data sheet provides details about the kit, its workflow, input requirements, and data accuracy, while a new technical note discusses how to optimize coverage for highly sensitive variant calling.

RNA-Seq Analysis Demystified
A new data sheet provides a broad overview of RNA-Seq data analysis, demystifing the tools—from Illumina and third-parties—to make your studies successful. See a comparison of microarray and RNA-Seq data in a new white paper, comparing the ability of each platform to detect and quantify differential gene expression across two well-annotated samples.

Documentation

The following new documentation is available:

- HiSeq 1000 User Guide and Quick Reference Guide
- Infinium HD DNA Restoration Protocol Instructions
- Infinium HD FFPE QC Instructions, Assay Guide, Experienced User Card, and Lab Tracking Form
- Sample Stats Report Plug-in for GenomeStudio® Software
- GC Content Polynomial Fit C# Script for GenomeStudio Software

The following documentation has been updated recently:

- HiSeq Lab Tracking Form
- cnvPartition CNV Analysis Plug-in for GenomeStudio Software
- TruSeq Small RNA Sample Preparation Guide,

- London – June 28
- Glasgow –June 29
- Birmingham – July 5
- Leeds – July 6

Illumina Regional User Group Meetings
Illumina is hosting 13 regional user group meetings in North America, providing customers with a forum to share results, receive updates on the latest applications and products, and exchange best practices to get the most from their Illumina systems.

Registration is open for the following meetings:

April 26 - San Diego, California
June 1 - New York, New York
June 7 - Bethesda, Maryland
June 9 - Boston, Massachusetts

July 2011 (specific dates TBD)
- San Francisco Bay Area, California
- Seattle, Washington
- Los Angeles, California
- St. Louis, Missouri
- Toronto, Ontario, Canada
- Houston, Texas
- Philadelphia, Pennsylvania

Upcoming Events

-
European Molecular Biology Laboratory (EMBL) Advanced Course–Next-Gen Sequencing Data Analysis
May 3-4
Heidelberg, Germany

-
International Friedreich's Ataxia Scientific Conference
May 5-7
Illkirch, France

- Leena Pelonen-Palotie Symposium–A Global View of Disease Genetics
May 18-19

Experienced User Card, and Lab Tracking Form
- VeraCode ADME Core Panel Guide and Lab Tracking Form

View or download PDFs of all current Illumina documentation here using your iCom login. To register for an iCom account click here.

Experimental Protocols

Protocols Provide New Application Options
Your research might benefit from experimental applications of Illumina technology. The following protocols are now available:

- Ultra-Low-Input mRNA-Seq Guide
- Directional mRNA-Seq Sample Preparation Guide
- DSN Normalization Sample Preparation Application Note

Please note that these protocols are not supported by Illumina Technical Support or Field Application scientists, and may prove challenging to even the most experienced user.

iCommunity Newsletter

March iCommunity Now Online
Learn how customers are using Illumina products to enhance their research. The March iCommunity includes articles about adaptive immune system research, autism discoveries, breast cancer diagnostics, and sheep breeding selection. Subscribe today!

Recent Publications

Jones SJ, Laskin J et al. (2010)) Evolution of an adenocarcinoma in response to selection by targeted kinase inhibitors. Genome Biol 11: R82.

Goudie DR, D'Alessandro M et al. (2011) Multiple self-healing squamous epithelioma is caused by a disease-specific spectrum of mutations in TGFBR1. Nat Genet [Epub ahead of print].

Bonnefond A, Durand E et al. (2010) Molecular diagnosis of neonatal diabetes mellitus using next-generation sequencing of the whole exome. PLoS ONE 5: e13630.

Gardy JL, Johnston JC et al. (2011) Whole-genome sequencing and social-network analysis of a

Helsinki, Finland

- European Symposium on Bio-Organic Chemistry (ESBOC)
May 20-22
Gregynog, Wales,
United Kingdom

-
European Society of Human Genetics (ESHG)
May 28-31
Amsterdam, the Netherlands

Attend the Illumina Technology Workshop:
Sunday, May 29
6:00pm-8:15pm
Booth #244

- Genetic Epidemiology
May 30-June 1
Paris, France

- International Rapeseed Congress
June 5-9
Prague, Czech Republic

-
Copenhagenomics: Genomics Conference on Improving Human Health
June 9-10
Copenhagen, Denmark

- Infectious Disease Research Network (IDRN)–Microbial Community Profiling Workshop
June 20
London, United Kingdom

-
International Committee for Animal Recording (ICAR)
June 22-24
Bourg-en-Bresse, France

View Webinar Archives

ILLUM-0866

tuberculosis outbreak. N Engl J Med 364: 730-739.

Rosenthal AZ, Matson EG et al. (2011) RNA-seq reveals cooperative metabolic interactions between two termite-gut spirochete species in co-culture. ISME J [Epub ahead of print].

Polymenidou M, Lagier-Tourenne C et al. (2011) Long pre-mRNA depletion and RNA missplicing contribute to neuronal vulnerability from loss of TDP-43. Nat Neurosci [Epub ahead of print].

Wang W, Barnaby JY et al. (2011) Timing of plant immune responses by a central circadian regulator. Nature 470: 110-114.

View additional publications

Update Profile

ILLUM-0867

www.illumina.com

Illuminotes

June 2011

Product News

New GWAS Manifests Available
New build 37 manifests (April Release 2011) for all current Illumina standard GWAS microarrays, including the latest updates to marker names and positions, are now available. For further information, please contact Illumina technical support.

Discover, Develop, and Deploy with Illumina's Agrigenomics Toolset
Illumina systems and products support multiple agrigenomics applications to advance research and commercial efforts, including enhancing breeding programs (see our new video).

Product Literature

MiSeq™ Sequencing Data Available!
Download the MiSeq poster presented at the 2011 Cold Spring Harbor Biology of Genomes Meeting and an accompanying presentation describing amplicon sequencing from FFPE samples, metagenomic sequencing, de novo sequencing, and more. An application note describing the amplicon sequencing experiments in more detail is also available.

Customer Satisfaction

Product Labeling Improvements
We are enhancing the information content of our packaging and recently developed an easier to read product label format, incorporating expiration date detail and internationally recognized symbols for product information. This new labeling format now appears on TruSeq reagent kits and will soon be standard for all new Illumina products.

Documentation

The following new documentation is available:

- Version Compatibility Reference Guide for HiSeq™ Sequencing Components

TruSeq™

Sequencing Data Accuracy Comparison

A side-by-side analysis of the data quality generated using Illumina sequencing and a competing services company technology is now available. Analysis was performed using transparent, reproducible methods and publically available data sets.

New Products

- Infinium® HD HumanOmni2.5 and HumanOmni5 BeadChips
- TruSeq v3 Reagent Kits
- MiSeq Personal Sequencing System
- Infinium DNA Restoration Solution
- TruSeq DNA Fragmentation and Size Selection Automation

Illumina Seminar Series
Registration is open for these upcoming seminars:

Sequencing Seminars

- Barcelona – June 22
- Rome – June 23
- London – June 28
- Glasgow –June 29

ILLUM0868

- TruSeq Sample Preparation Best Practices and Troubleshooting Guide
- GenomeStudio® 2011.1 Online Help (covers Framework and Methylation Module)
- Infinium LCG Assay Protocol Guide, Experienced User Cards, and Lab Tracking Form for use with HumanOmni2.5-8 BeadChip
- Infinium Multi-Use LCG Assay Protocol Guide, Experienced User Cards, and Lab Tracking Form for use with HumanOmni2.5-8 Multi-Use BeadChip
- HumanOmni2.5-8 BeadChip Product Information Sheet
- HumanOmni2.5-8 Multi-Use BeadChip Product Information Sheet

The following documentation has been updated recently:

- TruSeq DNA Sample Preparation Guide, Experienced User Cards, and Lab Tracking Forms (includes new gel-free protocol option)
- TruSeq Enrichment Guide, Experienced User Card, and Lab Tracking Form (includes new custom enrichment kit)
- CASAVA v1.8 User Guide and Quick Reference Guide
- Eco™ Real-Time PCR System User Guide
- Infinium HD HumanMethylation450 BeadChip Assay Protocol Guide, Experienced User Cards, and Lab Tracking Form (with Illumina LIMS support)

View or download PDFs of all current Illumina documentation here using your iCom login. To register for an iCom account click here.

Recent Publications

Totoki Y, Tatsuno K, et al. (2011) High-resolution characterization of a hepatocellular carcinoma genome. Nat Gen 43: 464-469.

Feldman AL, Dogan A, et al. (2011) Discovery of recurrent t(6;7)(p25.3;q32.3) translocations in ALK-negative anaplastic large cell lymphomas by massively parallel genomic sequencing. Blood 117: 915-919.

Jiao Y, Shi C, et al. (2011) DAXX/ATRX, MEN1, and mTOR Pathway Genes Are Frequently Altered in Pancreatic Neuroendocrine Tumors. Science 331: 1199-1203. Reviewed by Elsässer SJ, Allis CD and Lewis PW (2011) Cancer. New epigenetic drivers of cancers. Science 331: 1145-1146.

Shi CY, Yang H, et al. (2011) Deep sequencing of the Camellia sinensis transcriptome revealed candidate genes for major metabolic pathways of tea-specific compounds. BMC Genomics 12:131.

- Birmingham – July 5
- Leeds – July 6

Illumina Regional User Group Meetings

Illumina is hosting regional user group meetings in North America, providing customers with a forum to share results, receive updates on the latest applications and products, and exchange best practices to get the most from their Illumina systems.

Registration is open for the following meetings:

San Francisco - August 3

Boston - September 8

Dates still to be determined for the following cities:

- Seattle, Washington
- Los Angeles, California
- St. Louis, Missouri
- Toronto, Ontario, Canada
- Houston, Texas
- Philadelphia, Pennsylvania

Upcoming Events

- Infectious Disease Research Network (IDRN)–Microbial Community Profiling Workshop
  June 20
  London, United Kingdom

- International Committee for Animal Recording (ICAR)
  June 22-24
  Bourg-en-Bresse, France

- Berlin Summer Meeting
  June 23-25
  Berlin, Germany

- JOBIM
  June 28-July 1
  Paris, France

ILLUM-0869

Wenping H, Yuan Z, et al. (2011) De novo transcriptome sequencing in Salvia miltiorrhiza to identify genes involved in the biosynthesis of active ingredients. Genomics. (Epub ahead of print.)

Shan L, Yang HC, et al. (2011) Influence of host gene transcription level and orientation on HIV-1 latency in a primary-cell model. J Virol 85: 5384-5393.

Yu H, Xie W, et al. (2011) Gains in QTL detection using an ultra-high density SNP map based on population sequencing relative to traditional RFLP/SSR markers. PLoS One 6: e17595.

Bomar L, Maltz M, et al. (2011) Directed culturing of microorganisms using metatranscriptomics. MBio 2: e00012-00011.

View additional publications

- EU Cytogenetics Conference
  July 2-5
  Porto, Portugal

- ICGEB DNA Tumour Virus Meeting
  July 17-22
  Trieste, Italy

- CeBiTec Symposium
  July 18-20
  Bielefeld, Germany

- 50 Years of X Inactivation Research
  July 20-24
  Oxford, United Kingdom

- The Leena Peltonen School of Human Genetics
  August 21-25
  Hinxton, United Kingdom

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ILLUM-0870

www.illumina.com

Illuminotes

August 2011

Customer Satisfaction

Automated Filling Technologies Enhance Reagent Manufacturing

To improve product lead time and quality, Illumina is transitioning to automated filling technologies in our reagent manufacturing operation. Our new systems ensure consistent reagent fill levels within and across manufactured lots, label accuracy and proper capping.

Product News

TruSeq™ RNA and DNA Sample Prep Kits v2 Offer More Indexed Adapters

TruSeq RNA and DNA Sample Preparation Kits v2 now offer 24 indexed adapters, supporting higher levels of multiplexing and optimized fill volumes for manual and automated deployment.

LIMS Supports Infinium® HumanMethylation450 BeadChip

Illumina's state-of-the-art LIMS is now available for the HumanMethylation450 BeadChip, providing positive sample tracking, component verification, project and data management, lab workflow management, and reporting.

Customer Input

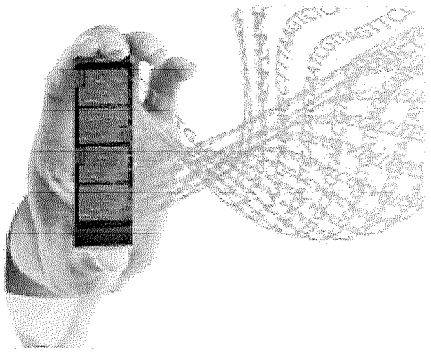
Interested in Methylation?

We are currently assessing the level of customer interest in and capturing guidance for the design of an Infinium mouse methylation array. If you would be interested in such a product we would appreciate hearing from you.

Documentation

The following new documentation is available:

- TruSeq DNA Sample Preparation v2 Guide, and Low-Throughput and High-Throughput Experienced User Cards and Lab Tracking Forms



HumanOmni5-Quad BeadChip Now Shipping

Delivering the most comprehensive coverage of the genome, the HumanOmni5-Quad BeadChip also provides the flexibility to add up to 500K custom markers for targeted applications and population-specific studies.

New Products

-TruSeq Custom Enrichment Kits

-MiSeq™ Personal Sequencing System

-TruSeq DNA Fragmentation and Size Selection Automation

-GenomeStudio® Supports Polyploidy Genotyping and More

Illumina User Group Meetings

Illumina is hosting user group meetings in North America and Europe, providing customers with a forum to share results, receive updates on the latest applications and products, and exchange best practices to get the most from their Illumina systems.

ILLUM-0871

- TruSeq RNA Sample Preparation v2 Guide, and Low-Throughput and High-Throughput Experienced User Cards and Lab Tracking Forms

The following documentation has been updated recently:

- HiScanSQ™ System User Guide and Quick Reference Guide

View or download PDFs of all current Illumina documentation here using your Illumina online account login. To register for an online account click here.

Product Literature

Optimize Analysis Efficiency of Whole-Genome Genotyping
A new tech note demonstrates how to minimize sample processing time for high- and low-throughput environments.

Online Training

Online Courses Available
Two new courses have been added to the Illumina customer Online Learning Portal:

- DesignStudio™ Software
- CASAVA Software

If you need an online learning account, please contact your local account manager or Illumina customer support.

Recent Publications

Avrani S, Wurtzel O, Sharon I, Sorek R, Lindell D. (2011) Genomic island variability facilitates Prochlorococcus – virus coexistence. Nature 474:604-608.

Barchi L, Lanteri S, Portis E, Acquadro A, Valè, et al. (2011) Identification of SNP and SSR markers in eggplant using RAD tag sequencing. BMC Genomics 12:304-313.

Ju YS, Kim JI, Kim S, Hong D, Park H, et al. (2011) Extensive genomic and transcriptional diversity identified through massively parallel DNA and RNA sequencing of eighteen Korean individuals. Nat Genet. 43:745-752.

Larman HB, Zhao Z, Laserson U, Li MZ, Ciccia A, et al. (2011) Autoantigen discovery with a synthetic human peptidome. Nat Biotechnol. 29:535-541.

North American User Group Meetings

* St. Louis – August 23-24
* Boston – September 8
* Seattle – September 13
* Nashville – September 15
Los Angeles – October 20
Houston – November 8
Philadelphia – November 10
Toronto, Ontario, Canada – December 15

European User Group Meetings

* Heidelberg, Germany – September 13-14
* Copenhagen, Denmark – September 20-21
* Nice, France – October 17-18

Agrigenomics User Group Meeting

* St. Louis – August 25

*Registration is open

Upcoming Events

-
The Leena Peltonen School of Human Genetics
August 21-25
Hinxton, United Kingdom

- UK Next-Generation Sequencing
August 30 - September 1
Nottingham, United Kingdom

- Eucarpia Fodder Crops and Amenity Grasses Section Meeting
September 4-8
Dublin, Ireland

- Spanish Society of Biochemistry and Molecular Biology (SEBBM)
September 5-8
Barcelona, Spain

- MipTec
September 20-22
Basel, Switzerland

ILLUM-0872

Li M, Wang IX, Li Y, Bruzel A, Richards AL, et al. (2011) Widespread RNA and DNA sequence differences in the human transcriptome. Science 333:53-58.

Li Y, Sidore C, Kang HM, Boehnke M, Abecasis GR. (2011) Low-coverage sequencing: Implications for design of complex trait association studies. Genome Res. 21:940-951.

Morin RD, Mendez-Lago M, Mungall Aj, Goya R, Mungall KL, et al. (2011) Frequent mutation of histone-modifying genes in non-Hodgkin lymphoma. Nature [Epub ahead of print].

Toung JM, Morley M, Li M, Cheung VG. (2011) RNA-sequence analysis of human B-cells. Genome Res. 21:991-998.

View additional publications

- International Congress on Human Genetics/American Society of Human Genetics (ICHG/ASHG)
October 11-15
Montreal, Quebec, Canada
Visit Illumina at Booth #708

Attend the Illumina Technology Workshops:

Illumina Sequencing Solutions for Every Need. Every Budget. Every Lab.
Wednesday, October 12
12:45pm at the Westin Hotel

Using Multiple Illumina Technologies for Comprehensive Genomic Analysis
Thursday, October 13
12:45pm at the Westin Hotel

View Webinar Archives

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Illuminotes

September 2011

Product News

New Tools for Epigenetics Studies

Planning an epigenetic study? Illumina offers a broad range of products for robust interrogation of multiple forms of epigenetic regulation. Learn more about our rapidly growing portfolio, including:

- Protocols and data analysis software for whole-genome bisulfite sequencing (WGBS) and reduced representation bisulfite sequencing (RRBS)
- Protocols enabling FFPE samples to be run on the Infinium HumanMethylation450 BeadChip
- Data analysis software for small RNA

Webinar

Designing TruSeq Custom Enrichment Content

Learn best practices for designing TruSeq Custom Enrichment content and obtain an in-depth review of how to modify your custom projects in GenomeStudio software.

Documentation

The following new documentation is available:

- MiSeq System Site Preparation Guide, Safety and Compliance Guide, User Guide, and Quick Reference Guide
- MiSeq Reagent Preparation Guide
- MiSeq Sample Sheet Quick Reference Guide
- Infinium HD FFPE Methylation Experienced User Cards
- Using Passive Reference Dyes for Normalization and Troubleshooting in qPCR Technical Note
- Sequencing Analysis Workflow Help
- Flicker User Guide
- Bisulfite Sequencing Analysis Software User Guide

The following documentation has been updated recently:

- Infinium HD FFPE QC Instructions and DNA Restoration Protocol

TruSeq™

TruSeq Custom Enrichment Trial Kit Available

The TruSeq Custom Enrichment Kit provides a cost-effective, scalable, custom targeted sequencing solution. View the design coordinates and gene list for this in-solution capture assay. Contact your Account Manager to order a trial kit.

New Products

-MiSeq™ Personal Sequencing System

-TruSeq DNA Fragmentation and Size Selection Automation

-GenomeStudio® Software Supports Polyploidy Genotyping and More

Illumina User Group Meetings

Illumina is hosting user group meetings in North America and Europe, providing customers with a forum to share results, receive updates on the latest applications and products, and exchange best practices to get the most from their Illumina systems.

Registration is open for the following meetings:

North American User Group Meetings

ILLUM-0874

View or download PDFs of all current Illumina documentation here using your Illumina online account login. To register for an online account click here.

We'd Like Your Opinion
How does Illumina rate when it comes to documentation? Complete our survey and earn a chance to win an **iPod Shuffle.**

Demonstrated Protocols

New Methylation Analysis Protocol
Your research might benefit from experimental applications of Illumina technology. The following Illumina demonstrated protocols are now available:

- Whole-Genome Bisulfite Sequencing for Methylation Analysis Guide
- Reduced Representation Bisulfite Sequencing for Methylation Analysis Guide

Please note that this protocol is not supported by Illumina Technical Support or Field Application scientists, and may prove challenging to even the most experienced user.

Recent Publications

Holbrook JD, Parker JS, et al. (2011) Deep sequencing of gastric carcinoma reveals somatic mutations relevant to personalized medicine. J Transl Med 9: 119.

Bass AJ, Lawrence MS, Brace LE, et al. (2011) Genomic sequencing of colorectal adenocarcinomas identifies a recurrent VTI1A-TCF7L2 fusion. Nat Genet. [Epub ahead of print]

Mutreja A, Kim DW, Thomson NR, et al. (2011) Evidence for several waves of global transmission in the seventh cholera pandemic. Nature. [Epub ahead of print]

Gracheva EO, Cordero-Morales JF, et al. (2011) Ganglion-specific splicing of TRPV1 underlies infrared sensation in vampire bats. Nature 476: 88-91.

Belgard TG, Marques AC, et al. (2011) A transcriptomic atlas of mouse neocortical layers. Neuron 71: 605-616.

Mercer TR, Neph S, et al. (2011) The human mitochondrial transcriptome. Cell 146: 645-658.

Jabbari A, Suarez-Farinas M, et al. (2011) Transcriptional profiling of psoriasis using RNA-Seq reveals previously unidentified differentially expressed genes. J Invest Dermatol. [Epub ahead of print]

Robinson T, Campino SG, et al. (2011) Drug-resistant genotypes and multi-clonality in *Plasmodium falciparum*

Los Angeles – October 20

European User Group Meetings

Nice, France – October 17-18
Cambridge, United Kingdom – October 20-21

Upcoming Events

- MipTec
  September 20-22
  Basel, Switzerland

- Annual National Genome Research Network (NGFN) Meeting
  September 26-28
  Berlin, Germany

- System Genetics: from man to microbe from genotype to phenotype
  September 29-30
  Groningen, Netherlands

- International Symposium on Human Identification (ISHI)
  October 3-6
  Washington, DC

- International Symposium on Animal Functional Genomics
  October 10-12
  Dublin, Ireland

-
  International Congress on Human Genetics/American Society of Human Genetics (ICHG/ASHG)
  October 11-15
  Monteral, Quebec, Canada
  Visit Illumina at Booth #708

  Attend the Illumina Technology Workshops:

  Illumina Sequencing Solutions for Every Need. Every Budget. Every Lab.
  Wednesday, October 12
  12:45pm at the Westin Hotel

  Using Multiple Illumina Technologies for Comprehensive Genomic Analysis
  Thursday, October 13
  12:45pm at the Westin Hotel

ILLUM-0875

- Epigenetics: from Bases to

analysed by direct genome sequencing from peripheral blood of malaria patients. PLoS One 6:e23204.

Raffan E and Semple RK (2011) Next generation sequencing--implications for clinical practice. Br Med Bull. 99: 53-71.

View additional publications

Pathology
October 12-14
Paris, France

- National Cancer Research Institute (NCRI) Cancer Conference
November 6-8
Liverpool, United Kingdom

View Webinar Archives

View All Events

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ILLUM-0876

www.illumina.com

Illuminotes

November 2011

Customer Satisfaction

Enhanced MyIllumina Simplifies Product Ordering, Tracking, and More
Click MyIllumina in the upper right-hand corner of any Illumina webpage and you can:

- Place orders
- View order history
- Convert quotes to orders
- View Support Bulletins
- Use Lot Tracker to view lots and expiration dates of current and previous orders, and recent shipments
- Create and manage custom projects with DesignStudio™ software

Register for a MyIllumina account today!

New Products

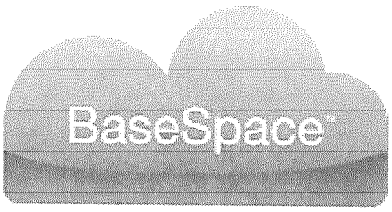
Ribo-Zero™ Gold Kit Enhances rRNA Removal
The new Ribo-Zero Gold Kit for human, mouse, or rat from Epicentre (an Illumina company) removes both cytoplasmic and mitochondrial rRNA, resulting in improved RNA-Seq results and fewer wasted reads.

CASAVA Supports Nextera™ Dual Indexing
Enhanced CASAVA 1.8.2 sequence analysis software supports Nextera dual-indexed libraries on HiSeq® systems and is now available for download.

Product News

Discontinuation of RUO VeraCode Universal Capture and Carboxyl Beads
Effective immediately, orders for RUO-labeled VeraCode Universal Capture and Carboxyl Beads will be fulfilled with high-quality, FDA-registered General Purpose Reagent (GPR) beads. For more information contact your local Account Manager.

Final Order Date for mRNA-Seq and DGE Small RNA Sample Preparation Kits
The final order date for these sequencing sample preparation kits is December 31, 2011, with a final shipment date of February 1, 2012. Contact your local Account Manager for assistance in transitioning to the TruSeq family of sample preparation kits for



BaseSpace™ Takes MiSeq® Data into the Cloud
BaseSpace is a secure and customizable cloud computing environment that offers streamlined MiSeq data analysis and real-time sharing capabilities without the need for onsite computing infrastructure.

New Products

-MiSeq System

-TruSeq™ Custom Amplicon Kit

-Nextera DNA Sample Preparation Kits

-Infinium® HumanExome BeadChips

-Infinium BovineLD BeadChip

-TruSeq DNA Fragmentation and Size Selection Automation

Illumina Sequencing Seminar Series
Registration is open for these upcoming seminars:

November 24 – Glasgow, United Kingdom

Illumina User Group Meetings ILLUM-0877
Illumina is hosting user group meetings in North America and Europe, providing customers with a forum to share results, receive

sequencing projects.

Product Literature

Case Studies: HiSeq 2000 System and TruSeq Exome Enrichment Kits Empower Research
Researchers at the Oklahoma Medical Research Foundation and the Genome Technology Access Center at Washington University are using the HiSeq 2000 System and TruSeq Exome Enrichment Kits to discover mutations linked with lupus, cancer, and other diseases.

Enhanced CASAVA Offers Improved Accuracy for ELAND and Variant Calling
A new technical note describes the improved alignment and variant calling accuracy of CASAVA 1.8 sequence analysis software.

Estimating Coverage for Sequencing Applications
An updated technical note provides information on how to estimate the sequencing coverage required for an experiment.

Documentation

The following new documentation is available:

- BaseSpace Help

The following documentation has been updated recently:

- Estimating Sequencing Coverage Technical Note
- Whole-Genome Bisulfite Sequencing for Methylation Analysis Guide
- Cluster Station User Guide
- Version Compatibility Reference
- TruSeq Enrichment Guide, Analysis Guide, Experienced User Card, and Lab Tracking Form

View or download PDFs of all current Illumina documentation here using your MyIllumina account login. To register for a MyIllumina account click here.

Online Training

MiSeq and TruSeq Online Courses Available
Several new courses have been added to the Illumina Customer Online Learning Portal, from Introductory Sequencing and Getting Started with MiSeq, to TruSeq Sample Preparation and Custom Amplicon modules. You'll need a MyIllumina account to enroll. Register for a MyIllumina account or contact your local Account Manager for assistance.

Recent Publications

Bos KI, Schuenemann VJ, Golding GB, Burbano HA,

updates on the latest applications and products, and exchange best practices to get the most from their Illumina systems.

Registration is open for the following meetings:

North American User Group Meetings

Toronto, Ontario, Canada – December 15

Upcoming Events

- Association for Molecular Pathology (AMP)
  November 17-19
  Grapevine, Texas

- Australasian Biospecimen Network Association (ABNA)
  November 18
  Perth, Australia

- New Zealand Microbiological Society (NZMS)
  November 23-25
  Palmerston North, New Zealand

- Functional Genomics & Systems Biology
  November 29-December 1
  Hinxton, United Kingdom

- 4th International Barcode of Life
  November 30-December 3
  Adelaide, Australia

- Plant & Animal Genome Conference (PAG)
  January 14-18
  San Diego, California

- Norwegian Biochemical Society Winter Meeting
  January 19-22
  Storefjell, Norway

- Advances in Genome Biology and Technology (AGBT)
  February 15-18
  Marco Island, Florida

Waglechner N, et al. (2011) A draft genome of *Yersinia pestis* from victims of the Black Death. Nature 478: 506-510.

Wang D, Wang H, Zhou Y, Zhang Q, Zhang F, et al. (2011) Genome sequencing reveals unique mutations in characteristic metabolic pathways and the transfer of virulence genes between *V. mimicus* and *V. cholerae*. PLoS ONE 6: e21299.

Lu R, Neff NF, Quake SR, and Weissman IL (2011) Tracking single hematopoietic stem cells *in vivo* using high-throughput sequencing in conjunction with viral genetic barcoding. Nat Biotechnol 29: 928-933.

Castellarin M, Warren RL, Freeman JD, Dreolini L, Krzywinski M, et al. (2011) *Fusobacterium nucleatum* infection is prevalent in human colorectal carcinoma. Genome Research.

Baillie JK, Barnett MW, Upton KR, Gerhardt DJ, Richmond TA, et al. (2011) Somatic retrotransposition alters the genetic landscape of the human brain. Nature. [Epub ahead of print]

Wang K, Kan J, Yuen ST, Shi ST, Chu KM, et al. (2011)Exome sequencing identifies frequent mutation of ARID1A in molecular subtypes of gastric cancer. Nat Genet. [Epub ahead of print]

Myllykangas S, Buenrostro JD, Natsoulis G, Bell JM, and Ji HP. (2011) Efficient targeted resequencing of human germline and cancer genomes by oligonucleotide-selective sequencing. Nat Biotechnol 29: 1024-1027.

Maher B (2011) Human genetics: Genomes on prescription. Nature 478: 22-24.

Virgin HW and Todd JA (2011) Metagenomics and personalized medicine. Cell 147: 44-56.

Brown CT, Davis-Richardson AG, Giongo A, Gano KA, Crabb DB, et al. (2011) Gut microbiome metagenomics analysis suggests a functional model for the development of autoimmunity for type 1 diabetes. PLoS ONE 6: e25792.

Cooper GM and Shendure J (2011) Needles in stacks of needles: finding disease-causal variants in a wealth of genomic data. Nat Rev Genet 12: 628-640.

View Additional Publications

- International Symposium of the Association of Biomolecular Resource Facilities (ABRF)
March 17-20
Orlando, Florida

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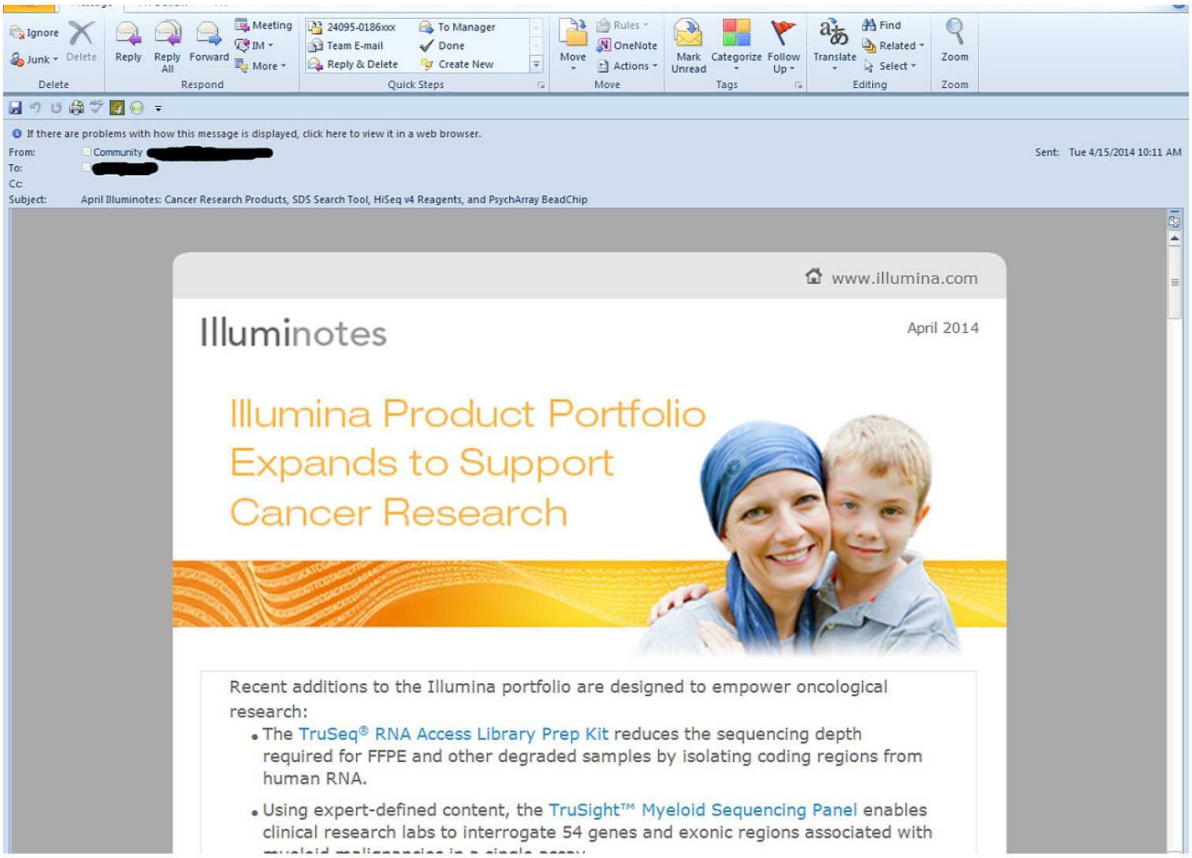
Ignore
Junk
Delete
Reply
Reply All
Forward
Meeting
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24095-0186xxx
Team E-mail
Reply & Delete
To Manager
Done
Create New
Quick Steps
Move
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OneNote
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Cc:
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Sent: Tue 4/15/2014 10:11 AM
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April 2014
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To:
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Message [redacted]

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- **Personalized Pricing:** view your BeadArray Volume Discount tier and order in local currency.
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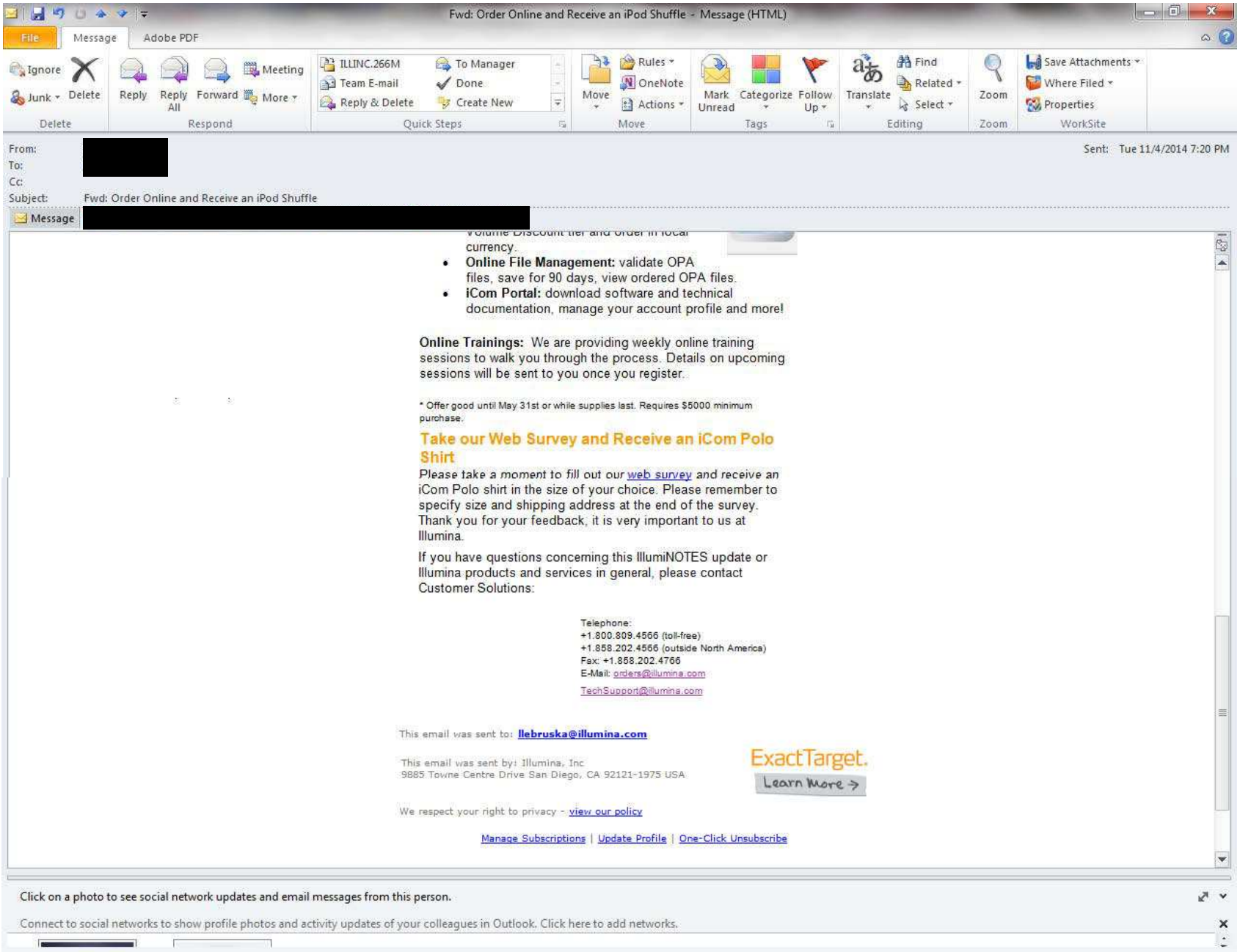
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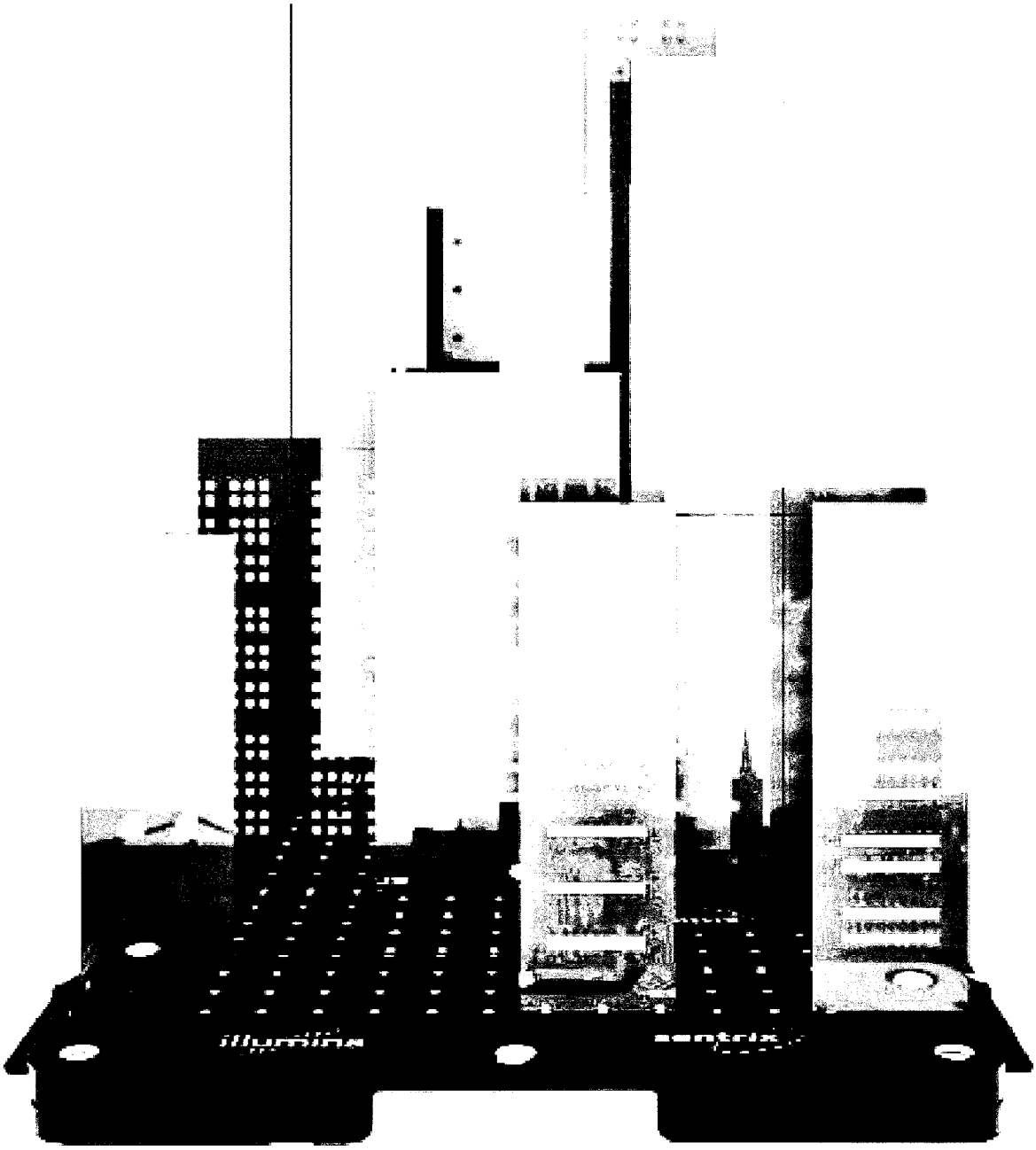
Exhibit 216

2003 Annual Report



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Item 4. *Submission of Matters to a Vote of Security Holders.*

No matters were submitted to a vote of security holders during the fourth quarter of 2003.

PART II

Item 5. *Market for Registrant's Common Stock and Related Stockholder Matters.*

Our common stock has been quoted on the Nasdaq National Market under the symbol "ILMN" since July 28, 2000. Prior to that time, there was no public market for our common stock. The following table sets forth, for the periods indicated, the quarterly high and low closing prices per share of the common stock as reported on the Nasdaq National Market. Our present policy is to retain earnings, if any, to finance future growth. We have never paid cash dividends and have no present intention to pay cash dividends in the foreseeable future.

	2002	
	High	Low
First Quarter	$12.34	$6.50
Second Quarter	9.00	4.34
Third Quarter	6.22	2.93
Fourth Quarter	5.83	2.91
	2003	
	High	Low
First Quarter	$3.95	$1.80
Second Quarter	4.19	1.81
Third Quarter	5.31	2.81
Fourth Quarter	8.50	5.20

At March 1, 2004, there were approximately 145 stockholders of record and the price per share of our common stock, as reported on the Nasdaq National Market on such date, was $6.89.

Sales of Unregistered Securities

None.

Use of Proceeds

On July 27, 2000, we commenced our initial public offering pursuant to a Registration Statement on Form S-1 (File No. 333-33922) resulting in net offering proceeds of $101.3 million. We will continue to use proceeds from our initial public offering to fund operations. Through December 28, 2003, we have used approximately $18 million to purchase property, plant and equipment and approximately $38 million to fund general operating expenses. The remaining balance is invested in a variety of interest-bearing instruments including U.S. Treasury securities, corporate debt securities and money market accounts.

Item 6. *Selected Financial Data.*

The following selected historical consolidated financial data have been derived from our audited consolidated financial statements. The balance sheet data as of December 28, 2003 and December 29, 2002 and statements of operations data for each of the three years in the period ended December 28, 2003 are derived from audited consolidated financial statements included in this Form 10-K. You

should read this table in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 8, "Financial Statements and Supplementary Data."

Statements of Operations Data

	Year Ended December 28, 2003	Year Ended December 29, 2002	Year Ended December 30, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999
	(In thousands, except per share data)				
Revenue:					
Product revenue	$ 18,378	$ 4,103	$ 897	$ 42	$ 37
Service revenue	6,496	3,305	99	—	—
Research revenue	3,161	2,632	1,490	1,267	437
Total revenue	28,035	10,040	2,486	1,309	474
Costs and expenses:					
Cost of product and service revenue	10,037	3,536	557	—	—
Research and development	22,511	26,848	20,735	13,554	4,085
Selling, general and administrative	18,899	9,099	5,663	4,193	1,349
Amortization of deferred compensation and other non-cash compensation charges	2,454	4,360	5,850	6,797	958
Litigation judgment	756	8,052	—	—	—
Total costs and expenses	54,657	51,895	32,805	24,544	6,392
Loss from operations	(26,622)	(41,855)	(30,319)	(23,235)	(5,918)
Interest income, net	(441)	1,524	5,496	4,629	400
Net loss	$(27,063)	$(40,331)	$(24,823)	$(18,606)	$(5,518)
Net loss per share, basic and diluted	$ (0.85)	$ (1.31)	$ (0.83)	$ (1.37)	$ (3.91)
Shares used in calculating net loss per share, basic and diluted	31,925	30,890	29,748	13,557	1,410

Balance Sheet Data

	December 28, 2003	December 29, 2002	December 30, 2001	December 31, 2000	December 31, 1999
			(In thousands)		
Cash, cash equivalents and current restricted cash and investments	$ 32,882	$ 66,294	$ 93,786	$118,719	$33,088
Working capital	32,229	58,522	91,452	126,260	32,881
Total assets	99,234	121,906	122,465	132,793	33,895
Long-term debt obligations	24,999	25,620	590	887	—
Accumulated deficit	(117,487)	(90,424)	(50,093)	(25,270)	(6,663)
Total stockholders' equity	47,388	71,744	106,791	124,100	32,032

See Note 1 of Notes to Financial Statements for an explanation of the determination of the number of shares used to compute basic and diluted net loss per share.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operation.*

The following discussion and analysis should be read with "Selected Financial Data" and our financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. The discussion and analysis in this Annual Report on Form 10-K may contain forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. The cautionary statements made in this Annual Report on Form 10-K should be read as applying to all related forward-looking statements wherever they appear in this Annual Report on Form 10-K. Our actual results could differ materially from those discussed here. Factors that could cause or contribute to these differences include those discussed in "Factors Affecting Operating Results" below as well as those discussed elsewhere.

Overview

Illumina, Inc. was incorporated in April 1998. We are developing next-generation tools for the large-scale analysis of genetic variation and function. Understanding genetic variation and function is critical to the development of personalized medicine, a key goal of genomics. Using our technologies, we have developed a comprehensive line of products that are designed to provide the throughput, cost effectiveness and flexibility necessary to enable researchers in the life sciences and pharmaceutical industries to perform the billions of tests necessary to extract medically valuable information from advances in genomics. This information is expected to correlate genetic variation and gene function with particular disease states, enhancing drug discovery, allowing diseases to be detected earlier and more specifically, and permitting better choices of drugs for individual patients.

In November 1999, we entered into a joint development agreement with Applied Biosystems under which the companies would jointly develop a SNP genotyping system that would combine our BeadArray technology with Applied Biosystems' assay chemistry and scanner technology. Under this agreement, we were primarily responsible for developing and manufacturing the arrays and Applied Biosystems was primarily responsible for developing and manufacturing the instruments, SNP assay reagents, and software and for marketing the system worldwide. In conjunction with the agreement, Applied Biosystems purchased 1.25 million shares of Series C convertible preferred stock at $4.00 per share. In addition, Applied Biosystems agreed to provide us with non-refundable research and development support of $10 million, all of which was provided by December 2001. Upon commercialization of the system, we would have received a share of the operating profits from the sales of all components of these systems. We had originally deferred recognition of revenue from the research funding of $10 million provided by Applied Biosystems, and would have recognized such amounts as revenue at a contractually defined rate of 25% of the total profit share we earned from the sales of

collaboration products, had such sales occurred. As of December 28, 2003, this amount has been reclassified to an advance payment from former collaborator.

In July 2002, Applied Biosystems indicated that the planned mid-2002 launch of this genotyping system would be delayed a second time. This delay was related to Applied Biosystems' inability to optimize and multiplex the SNP assay reagents. We do not believe that Applied Biosystems has any intention of continuing to develop a collaboration product with us, and it has recently launched a competing product. As a result of the delay in developing the collaboration product, we launched our own production-scale genotyping system in July 2002 utilizing our arrays and an independently developed scanner and assay method.

In December 2002, Applied Biosystems filed a complaint, then later in March 2003 amended and refiled a complaint, for a patent infringement suit against us in the federal court in Northern California asserting infringement of several patents related to Applied Biosystems' patented assay intended for use in our collaboration. Applied Biosystems seeks a judgment granting it damages for infringement, treble damages alleging that such infringement is willful and a permanent injunction restraining us from the alleged infringement. We have answered the complaint, asserting various defenses, including that we do not infringe the patents or that the patents are invalid, and asserting counterclaims against Applied Biosystems seeking declaratory judgment relief related to the patents being asserted against us, and seeking damages from Applied Biosystems for its unfair and unlawful conduct which constitutes attempted monopolization in violation of the antitrust laws.

Also in December 2002, Applied Biosystems sent a notification to us alleging that we had breached the joint development agreement entered into in November 1999 and seeking to compel arbitration pursuant to that agreement. This notification alleged that our production-scale genotyping products and services are collaboration products developed under the joint development agreement, and that our commercial activities with respect to our genotyping products and services are unlawful, unfair or fraudulent. Among other relief, Applied Biosystems is seeking compensatory damages of $30 million, disgorgement of all revenues received from sales of these products and services and a prohibition of future sales of these products or services.

In December 2002, we filed a suit alleging breach of contract, breach of the implied covenant of good faith and fair dealing, unfair competition and other allegations against Applied Biosystems in San Diego Superior Court, and a motion for a temporary restraining order to prevent the arbitration of our joint development agreement sought by Applied Biosystems. In December 2003, we notified Applied Biosystems that we terminated the joint development agreement.

In December 2003, after having granted temporary and preliminary injunctions staying the arbitration, the San Diego Superior Court directed Applied Biosystems and us to resolve the contract dispute in a binding arbitration procedure. While a definitive schedule has not yet been set, we believe that the arbitration process could be completed as early as September 2004. We will vigorously defend against the claims alleged by Applied Biosystems but the outcome of an arbitration proceeding is inherently uncertain and we cannot be sure that we will prevail. This arbitration could result in a range of potential outcomes, based solely on the judgment and discretion of the arbitrator, including (1) the award of all damages and injunctive relief sought by Applied Biosystems; (2) the award of all damages and relief sought by us; or (3) a partial award of damages and/or injunctive relief to either party. We have not accrued for any potential losses in this case because we believe that an adverse determination is not probable, and potential losses cannot be reasonably estimated. In addition, our financial statements include a $10 million advance payment from Applied Biosystems that would have been deducted from the profits otherwise payable to us from Applied Biosystems had the collaboration been successful and which could offset the impact on our consolidated results of operations of an adverse arbitration determination up to that amount. However, any unfavorable arbitration determination, and in particular any significant cash amounts required to be paid by us or prohibition of the sale of our products or services, could result in a material adverse effect on our business, financial condition and results of operations.

We are in the early stages of proceedings in the patent case. In February 2004, the federal district court in Northern California ordered that the patent case be stayed pending completion of the arbitration process. We intend to vigorously defend against the claims alleged by Applied Biosystems and continue to pursue our counterclaims against Applied Biosystems. However, we cannot be sure that we will prevail in these matters. Any unfavorable determination, and in particular any significant cash amounts required to be paid by us or prohibition of the sale of our products or services, could result in a material adverse effect on our business, financial condition and results of operations.

In the first quarter of 2001, we began commercial sale of short pieces of DNA, or oligos, manufactured using our proprietary Oligator technology. We believe our Oligator technology is more cost effective than competing technologies, which has allowed us to market our oligonucleotides under a price leadership strategy while still achieving attractive gross margins. In the second quarter of 2001, we initiated our SNP genotyping services product line. As a result of the increasing market acceptance of our high throughput, low cost BeadArray technology, we have entered into genotyping services contracts with many of the leading genotyping organizations including GlaxoSmithKline and The Sanger Centre, and have been awarded $9 million from the National Institutes of Health to play a major role in the International HapMap Project.

Our production-scale genotyping system, BeadLab, is based on the system we developed that has been operational in our genotyping service product line since 2001. In addition to our Sentrix Array Matrices, it includes the BeadArray Reader, a proprietary scanner that uses a laser to read the results of experiments captured on our arrays, as well as the GoldenGate SNP genotyping assay which can analyze up to 1536 SNPs per DNA sample. This system is initially being marketed to a small number of high throughput genotyping users.

In the first quarter of 2003, we completed the installation of and recorded revenue for our first BeadLab high-throughput SNP genotyping system. We installed and recorded revenue for a second BeadLab in the second quarter of 2003, two additional BeadLabs in the third quarter of 2003 and a fifth and sixth BeadLab system in the fourth quarter of 2003.

In the second quarter of 2003, we announced the launch of a new array format, the Sentrix BeadChip, which is expected to significantly expand market opportunities for our BeadArray technology and provide increased experimental flexibility for life science researchers.

In the third quarter of 2003, we announced the launch of a gene expression product line on both the Sentrix Array Matrix and the Sentrix BeadChip that will allow researchers to analyze a focused set of genes across eight to 96 samples on a single array.

In the fourth quarter of 2003, we announced the launch of a benchtop SNP genotyping system, the BeadStation, for performing medium scale genotyping using our technology. The BeadStation includes our BeadArray Reader, genotyping analysis software and GoldenGate assay reagents and is designed to match the throughput requirements and variable automation needs of individual research groups and core labs. This system is expected to be available for shipment in the second quarter of 2004.

In the first quarter of 2004, we announced the launch of two new Sentrix BeadChips for whole-genome gene expression. These BeadChips are designed to enable high-performance, cost-effective, whole-genome expression profiling of multiple samples on a single chip, resulting in a dramatic reduction in cost of whole-genome expression analysis while allowing researchers to expand the scale and reproducibility of large-scale biological experimentation.

We are seeking to expand our customer base for our BeadArray technology; however, we can give no assurance that our sales efforts will continue to be successful.

A significant portion of our current revenue is derived from a few, large individual transactions such as the sale of production genotyping systems and large genotyping services contracts, including our work on the International HapMap Project. Because these transactions do not occur regularly and

there is a lengthy sales cycle for such transactions, revenue of these types may not occur on a consistent or frequent basis. In addition, our total amount of revenues is subject to fluctuations in demand from seasonality impacts, the timing and amount of U.S. government grant funding programs, the timing and size of research projects our customers perform and changes in overall spending levels in the life science industry. Given the difficulty in predicting the timing and magnitude of sales for our products, we may experience quarter-to-quarter fluctuations in revenue, resulting in the potential for a sequential decline in quarterly revenue. Due to the possibility of fluctuations in our revenue and net income or loss, we believe quarterly comparisons of our operating results are not a good indication of our future performance.

We have incurred substantial operating losses since our inception. As of December 28, 2003, our accumulated deficit was $117.5 million, and total stockholders' equity was $47.4 million. These losses have principally occurred as a result of the substantial resources required for the research, development and manufacturing scale up effort required to commercialize our products and services, as well as charges of $8.8 million related to a termination-of-employment lawsuit. We expect to continue to incur substantial costs for research, development and manufacturing scale up activities over the next several years. We will also need to significantly increase our selling, general and administrative costs as we build up our sales and marketing infrastructure to expand and support the sale of systems, other products and services. As a result, we will need to increase revenue significantly to achieve profitability

Results of Operations

To enhance comparability, the following table sets forth audited Consolidated Statements of Operations for the years ended December 28, 2003, December 29, 2002 and December 30, 2001 stated as a percentage of total revenue.

	Year Ended December 28, 2003	Year Ended December 29, 2002	Year Ended December 30, 2001
Revenue			
Product revenue	66%	41%	36%
Service revenue	23	33	4
Research revenue	11	26	60
Total revenue	100	100	100
Costs and expenses:			
Cost of product and service revenue	36	35	23
Research and development	80	267	834
Selling, general and administrative	67	91	228
Amortization of deferred compensation and other non-cash compensation charges	9	44	235
Litigation judgment	3	80	—
Total costs and expenses	195	517	1,320
Loss from operations	(95)	(417)	(1,220)
Interest income	6	38	249
Interest expense	(8)	(23)	(28)
Net loss	(97)%	(402)%	(999)%

Comparison of Years Ended December 28, 2003 and December 29, 2002

Revenue

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Product revenue	$18,378	$ 4,103	348%
Service revenue	6,496	3,305	97
Research revenue	3,161	2,632	20
Total revenue	$28,035	$10,040	179%

Revenue for the years ended December 28, 2003 and December 29, 2002 was $28.0 million and $10.0 million, respectively. Product revenue increased to $18.4 million in 2003 from $4.1 million in 2002. The increase resulted almost entirely from the first sales of our BeadLab SNP genotyping system, with six systems sold in the year ended December 28, 2003, along with sales of consumables that are used on these systems. Prior to 2003 we had no sales of genotyping systems or consumable products. SNP genotyping service revenue increased to $6.5 million in 2003 from $3.3 million in 2002. Substantially all of this increase relates to genotyping services performed for the International HapMap Project, which commenced in 2003. We are the recipient of a grant from the National Institutes of Health covering our participation in the International HapMap Project, which is a $100 million, internationally funded successor project to the Human Genome Project that will help identify a map of genetic variations that may be used to perform disease-related research. We could receive up to $9.1 million of funding for this project which covers basic research activities, the development of SNP assays and the genotyping to be performed on those assays. We recognized revenue under this grant of $3.7 million in 2003 and, as of the end of 2003, we had approximately $5.4 million of funding remaining related to this project which is expected to be received in 2004, depending on the actual amount of work that we perform. Government grants and other research funding increased to $3.2 million for the year ended December 28, 2003 from $2.6 million for the year ended December 29, 2002 due to an increase in the number of grants received.

To expand revenue in the future, we have recently launched a series of new products that we expect to begin selling in 2004. These include our BeadStation system for moderate throughput genotyping needs, and two multi-sample whole genome gene expression BeadChips that are also processed on a BeadStation. Our BeadLab systems address a limited number of potential high throughput genotyping customers, and sales of these systems may decline in 2004 versus 2003. We expect the sales of the new products mentioned above to offset such decline and for overall revenues to increase above 2003 levels; however, we cannot be assured that we will be successful in these sales efforts.

Cost of Product and Service Revenue

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Cost of product and service revenue	$10,037	$3,536	184%

Cost of revenue represents manufacturing costs incurred in the production process, including component materials, assembly labor and overhead, packaging and delivery cost. Costs related to research revenue is included in research and development expense. Cost of product and service revenue increased to $10.0 million the year ended December 28, 2003 from $3.5 million for the year ended December 29, 2002. Substantially all of this increase was driven by the sales of our BeadLab systems and consumables, of which we had none in 2002, as well as the higher level of services revenue during 2003. Gross margins on product and service revenues were 60% in the year ended December 28, 2003, compared to 52% for the year ended December 29, 2002. This increase is due

primarily to increased sales of higher margin products and services such as SNP genotyping services, array matrices and assay reagents. We expect product mix will continue to affect our future gross margins. We also expect our total cost of product and service revenue to increase in the next year as we sell additional products, but to decrease as a percent of product and service revenue due to gains in manufacturing efficiencies and the sale of a larger proportion of higher margin products.

Research and Development Expenses

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Research and development	$22,511	$26,848	(16)%

Our research and development expenses consist primarily of salaries and other personnel-related expenses, laboratory supplies and other expenses related to the design, development, testing and enhancement of our products. We expense our research and development expenses as they are incurred. Research and development expenses decreased $4.3 million to $22.5 million for the year ended December 28, 2003 from $26.8 million for the year ended December 29, 2002.

During the year ended December 28, 2003, the cost of BeadArray research activities decreased $3.8 million as compared to the year ended December 29, 2002. The decrease occurred primarily as a result of completing the development of new products launched in 2003: the BeadChip, an additional microarray platform, a gene expression application on both our Array Matrix and BeadChip platforms and a benchtop SNP genotyping system, the BeadStation, for performing moderate scale genotyping. In addition, as we completed development efforts and increased our BeadArray-driven product sales, a smaller portion of our manufacturing resources was charged to research and development expense in 2003 than in 2002.

Research to support our Oligator technology platform decreased $0.5 million in the year ended December 28, 2003 as compared to the year ended December 29, 2002. This decline is primarily due to higher development expenses incurred in the first quarter of 2002 for a major upgrade of our Oligator technology, which resulted in a significant increase in our manufacturing capacity. In the second quarter of 2003, we implemented additional Oligator manufacturing enhancements to expand capacity, increase throughput, and further reduce operating costs. We expect that our research and development expenses will remain relatively flat over the next 12 months.

Stock based compensation related to research and development employees and consultants was $1.3 million for the year ended December 28, 2003 as compared to $2.4 million for the year ended December 29, 2002.

Selling, General and Administrative Expenses

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Selling, general and administrative	$18,899	$9,099	108%

Our selling, general and administrative expenses consist primarily of personnel costs for sales and marketing, finance, human resources, business development and general management, as well as professional fees, such as expenses for legal and accounting services. Selling, general and administrative expenses increased $9.8 million to $18.9 million for the year ended December 28, 2003 from $9.1 million for the year ended December 29, 2002. Approximately $4.4 million of this increase is related to higher legal expenses, which is primarily due to legal proceedings regarding the disputes with Applied Biosystems. Approximately $4.1 million of the increase is due to higher sales and marketing costs, of which $3.0 million is attributable to personnel related expenses while the majority of the remaining $1.1 million is attributable to an increase in facility related expenses. During 2003, we

significantly expanded our sales and marketing resources to support the direct sale of our new products, including establishing additional sales operations in Japan and Singapore. We expect that our selling, general and administrative expenses will accelerate as we expand our staff, add sales and marketing infrastructure and incur additional costs to support the commercialization and support of an increasing number of products.

Stock based compensation related to selling, general and administrative employees, directors and consultants was $1.2 million for the year ended December 28, 2003 as compared to $2.0 million for the year ended December 29, 2002.

Amortization of Deferred Compensation and Other Stock-Based Compensation Charges

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Amortization of deferred compensation and other stock-based compensation charges	$2,454	$4,360	(44)%

From our inception through July 27, 2000, in connection with the grant of certain stock options and sales of restricted stock to employees, founders and directors, we have recorded deferred stock compensation totaling $17.7 million, representing the difference between the exercise or purchase price and the fair value of our common stock as estimated for financial reporting purposes on the date such stock options were granted or such restricted stock was sold. We recorded this amount as a component of stockholders' equity and amortize the amount as a charge to operations over the vesting period of the restricted stock and options.

We recognize compensation expense over the vesting period for employees, founders and directors, using an accelerated amortization methodology in accordance with Financial Accounting Standards Board Interpretation No. 28. For consultants, deferred compensation is recorded at the fair value for the options granted or stock sold in accordance with Statement of Financial Accounting Standards No. 123 and is periodically re-measured and expensed in accordance with Emerging Issues Task Force No. 96-18.

We recorded amortization of deferred compensation of $2.5 million and $4.4 million for the years ended December 28, 2003 and December 29, 2002, respectively. We expect amortization of deferred compensation to decrease in 2004 due to the nature of the accelerated depreciation methodology as the options near the end of their vesting period.

Litigation Judgment

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Litigation judgment	$756	$8,052	(91)%

A $7.7 million charge was recorded in June 2002 to cover total damages and estimated expenses related to a termination-of-employment lawsuit. We believe that the termination was lawful in all respects and that the verdict was unsupported by evidence presented at the trial. We plan to vigorously defend our position on appeal. A notice of appeal in this case was filed on October 10, 2002, and the appeal process is ongoing. During the appeal process, the court requires us to incur interest charges on the judgment amount at statutory rates until the case is resolved. For the years ended December 28, 2003 and December 29, 2002, we recorded litigation expense of $756,000 and $352,000, respectively, for interest.

Interest Income

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Interest income	$1,821	$3,805	(52)%

Interest income on our cash and cash equivalents and investments was $1.8 million and $3.8 million for the years ended December 28, 2003 and December 29, 2002, respectively. The decrease is due to lower average levels of invested funds and lower effective interest rates.

Interest Expense

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Interest expense	$2,262	$2,281	(1)%

Interest expense was $2.3 million for the years ended December 28, 2003 and December 29, 2002. Interest expense relates primarily to a $26.0 million fixed rate loan related to the purchase of our new facility during the first quarter of 2002.

Provision for Income Taxes

We incurred net operating losses for the years ended December 28, 2003 and December 29, 2002, and accordingly, we did not pay any federal or state income taxes. We have recorded a valuation allowance for the full amount of the resulting net deferred tax asset, as the future realization of the tax benefit is uncertain. As of December 28, 2003, we had net operating loss carryforwards for federal and state tax purposes of approximately $69.5 million and $27.0 million, respectively, which begin to expire in 2018 and 2006.

We also had federal and state research and development tax credit carryforwards of approximately $3.1 million and $2.6 million, respectively, which begin to expire in 2018, unless previously utilized.

Our utilization of the net operating losses and credits may be subject to substantial annual limitations pursuant to Section 382 and 383 of the Internal Revenue Code, and similar state provisions, as a result of changes in our ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization.

Comparison of Years Ended December 29, 2002 and December 30, 2001

Revenue

	Year Ended December 29, 2002	Year Ended December 30, 2001	Change
	(In thousands)		
Product revenue	$ 4,103	$ 897	357%
Service revenue	3,305	99	3,238%
Research revenue	2,632	1,490	77%
Total revenue	$10,040	$2,486	304%

Revenue for the years ended December 29, 2002 and December 30, 2001 was $10.0 million and $2.5 million, respectively. Product revenue increased to $4.1 million in 2002 from $0.9 million in 2001, mostly due to higher sales of oligonucleotides. SNP genotyping service revenue was $3.3 million in 2002 compared to $0.1 million in 2001 as a result of several contracts that were signed during 2002; 2001 was the first year of operations for our services and we experienced limited revenues. Government grants and other research funding increased to $2.6 million for the year ended Decem-

ber 29, 2002 from $1.5 million for the year ended December 30, 2001 due to a larger number of grants that were awarded to us.

Cost of Product and Service Revenue

	Year Ended December 29, 2002	Year Ended December 30, 2001	Change
	(In thousands)		
Cost of product and service revenue	$3,536	$557	535%

Cost of product and service revenue for the years ended December 29, 2002 and December 30, 2001 was $3.5 million and $0.6 million, respectively. The increase was driven by the increased sales of products and services. Gross margins on product and service revenues were 52% in 2002, versus 44% in 2001, driven by a more favorable cost structure in oligo manufacturing.

Research and Development

	Year Ended December 29, 2002	Year Ended December 30, 2001	Change
	(In thousands)		
Research and development	$26,848	$20,735	29%

Research and development expenses increased $6.1 million to $26.8 million for the year ended December 29, 2002, from $20.7 million for the year ended December 30, 2001. The increase in expenses was driven primarily by higher headcount, related personnel costs and higher laboratory and manufacturing supplies required to continue development of our BeadArray technology, which is the underlying technology on which Illumina was founded. During the year ended December 29, 2002, the research expense to support our BeadArray activities increased $5.4 million over the same period in 2001. These additional research and development expenses were related to activities such as exploring and optimizing assays for various types of genetic analysis experiments, increasing the multiplexing level of our arrays, continuing development of our arrays and the scanning instrumentation required to read arrays and building up and optimizing our SNP genotyping services system. Research to support our Oligator technology platform increased $0.7 million during the year ended December 29, 2002, as compared to the year ended December 30, 2001. During 2002, we introduced upgrades to our Oligator technology that significantly increased capacity and quality while reducing manufacturing cost.

Stock based compensation related to research and development employees and consultants was $2.4 million for the year ended December 29, 2002 as compared to $3.1 million for the year ended December 30, 2001.

Selling, General and Administrative Expenses

	Year Ended December 29, 2002	Year Ended December 30, 2001	Change
	(In thousands)		
Selling, general and administrative	$9,099	$5,663	61%

Selling, general and administrative expenses increased $3.4 million to $9.1 million for the year ended December 29, 2002, from $5.7 million for the year ended December 30, 2001. A portion of this increase is due to higher legal expenses related to a termination-of-employment lawsuit as well as higher legal expenses related to securing patents. The remaining increase was due to increases in the sales and marketing costs required to expand and support our custom oligonucleotide sales and SNP genotyping services operations.

Stock based compensation related to selling, general and administrative employees, directors and consultants was $2.0 million for the year ended December 29, 2002 as compared to $2.7 million for the year ended December 30, 2001.

Amortization of Deferred Compensation and Other Stock-Based Compensation Charges

	Year Ended December 29, 2002	Year Ended December 30, 2001	Change
	(In thousands)		
Amortization of deferred compensation and other stock-based compensation charges	$4,360	$5,850	(25)%

In connection with the grant of stock options and sale of restricted common stock to employees, founders and directors through July 27, 2000, we recorded deferred compensation of approximately $17.7 million. We recorded amortization of this deferred compensation of $4.4 million and $5.9 million for the years ended December 29, 2002 and December 30, 2001, respectively.

Interest Income

	Year Ended December 29, 2002	Year Ended December 30, 2001	Change
	(In thousands)		
Interest income	$3,805	$6,198	(39)%

Interest income on our cash and cash equivalents and investments was $3.8 million and $6.2 million for the years ended December 29, 2002 and December 30, 2001, respectively. Interest income decreased in 2002 due to lower average levels of invested funds and lower effective interest rates.

Interest Expense

	Year Ended December 29, 2002	Year Ended December 30, 2001	Change
	(In thousands)		
Interest expense	$2,281	$702	225%

Interest expense was $2.3 million for the year ended December 29, 2002 as compared to $0.7 million for the year ended December 30, 2001. Interest expense for the year ended December 29, 2002 resulted primarily from a $26.0 million loan related to the purchase of our new facility during the first quarter of 2002.

Liquidity and Capital Resources

As of December 28, 2003, we had cash, cash equivalents and investments (including restricted cash and investments of $100,000) of approximately $32.9 million. In addition, we had long term restricted investments of $12.2 million. We currently invest our funds in U.S. dollar based investment-grade corporate and government debt securities with average maturities of approximately 22 months.

Our operating activities used cash of $18.3 million in the year ended December 28, 2003, as compared to $25.6 million in the year ended December 29, 2002. Net cash used in operating activities in 2003 was primarily the result of a net loss from operations of $27.1 million reduced by non-cash charges of $4.5 million for depreciation and amortization and non-cash charges of $2.5 million for amortization of deferred stock compensation. Net cash used in operating activities in 2002 was primarily the result of a net loss from operations of $40.3 million reduced by an $8.1 million increase in accrued litigation judgment, non-cash charges of $4.5 million for depreciation and amortization and non-cash charges of $4.4 million for amortization of deferred stock compensation.

Our investing activities provided cash of $28.5 million in the year ended December 28, 2003 as compared to cash used of $2.6 million in the year ended December 29, 2002. Cash provided in investing activities in the year ended December 28, 2003 was due primarily to the sale or maturity of investment securities used to provide operating funds for our business, while cash used in the year ended December 29, 2002 was due primarily to the purchase of a new facility offset by maturities of investment securities. Capital expenditures were $2.0 million in 2003 and are expected to increase $1 to $2 million in 2004.

Our financing activities provided $0.2 million in the year ended December 28, 2003 as compared to $26.1 million in the year ended December 29, 2002. Cash provided by financing activities in the year ended December 29, 2002 resulted primarily from $26.0 million in loan proceeds related to the purchase of our new facility.

In June 2002, we recorded a $7.7 million charge to cover total damages and estimated expenses related to a termination-of-employment lawsuit. As a result of our decision to appeal the ruling, we filed a surety bond with the court on October 25, 2002 of 1.5 times the judgment amount, or approximately $11.3 million. Under the terms of the bond, we are required to maintain a letter of credit for 90% of the bond amount to secure the bond. Further, we were required to deposit approximately $12.5 million of marketable securities as collateral for the letter of credit and accordingly, these funds will be restricted from use for corporate purposes until the appeal process is completed. If a judgment is due, we expect payment will occur within 12 to 18 months.

As of the end of 2003, we had funding remaining under existing NIH grants of approximately $6.5 million, including $5.4 million available under the International HapMap Project. All of these amounts are scheduled to be paid in 2004, subject to the actual amount of activities we perform under these grants.

Based on our current operating plans, we expect that our current cash and cash equivalents, investments, revenues from sales and funding from grants will be sufficient to fund our anticipated operating needs for at least 18 to 24 months. Operating needs include the planned costs to operate our business including amounts required to fund working capital and capital expenditures. At the current time, we have no material commitments for capital expenditures. However, our future capital requirements and the adequacy of our available funds will depend on many factors, including our ability to successfully commercialize our SNP genotyping laboratory and gene expression systems and extensions to those products and to expand our oligonucleotide and SNP genotyping services product lines, scientific progress in our research and development programs, the magnitude of those programs, competing technological and market developments, the successful resolution of our legal proceedings with Applied Biosystems and the successful resolution of our appeal in a termination of employment lawsuit. Therefore, we may require additional funding within this time frame and the additional funding, if needed, may not be available on terms that are acceptable to us, or at all. Further, any additional equity financing may be dilutive to our then existing stockholders and may adversely affect their rights.

On December 23, 2003, we filed a shelf registration statement that would allow us to raise up to $65 million of funding through the sale of common stock in one or more transactions. We currently do not have formal arrangements to sell securities under the registration statement, but if market and other business conditions become favorable within the next several months, we could put such arrangements in place and attempt to raise at least a portion of the funds covered by the registration statement.

Contractual Obligations

In April 2000, we entered into a $3.0 million loan arrangement to be used at our discretion to finance purchases of capital equipment, $1.7 million of which remains available at December 28, 2003.

In January 2002, we purchased two newly constructed buildings and assumed a $26.0 million, 10-year mortgage on the property at a fixed interest rate of 8.36% which calls for principal and interest

payments of approximately $2.5 million per year until the loan expires in January 2012 at which time a balloon payment of $21.2 million will be due.

We also lease office space under non-cancelable operating leases that expire at various times through December 2006. These leases contain renewal options ranging from 2 to 3 years.

As of December 28, 2003, our contractual obligations are (in thousands);

	Payments Due by Period				
Contractual Obligation	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Long term debt	$41,519	$2,508	$5,016	$5,016	$28,979
Capital lease obligations	263	263	—	—	—
Operating leases	462	360	65	37	—
Total	$42,244	$3,131	$5,081	$5,053	$28,979

Critical Accounting Policies

Revenue Recognition. We recognize revenue in accordance with the guidelines established by SEC Staff Accounting Bulletin (SAB) No. 101. Under SAB 101, revenue cannot be recorded until all of the following criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller's price to the buyer is fixed or determinable; and collectibility is reasonably assured. Product revenue consists of sales of oligonucleotides, array matrices, assay reagents, genotyping systems and gene expression systems. Services revenue consists of revenue received for performing genotyping services. Revenue for product sales is recognized generally upon shipment and transfer of title to the customer, provided no significant obligations remain and collection of the receivables is reasonably assured. BeadLab genotyping system revenue is recognized when earned, which is generally upon shipment, installation, training and fulfillment of contractually defined acceptance criteria. Reserves are provided for anticipated product warranty expenses at the time the associated revenue is recognized. Revenue for genotyping services is recognized generally at the time the genotyping analysis data is delivered to the customer. We have been awarded $9.1 million from the National Institutes of Health to perform genotyping services in connection with the International HapMap Project. A portion of the revenue from this project is earned at the time the related costs are incurred while the remainder of the revenue is earned upon the delivery of genotyping data. Research revenue consists of amounts earned under research agreements with government grants, which is recognized in the period during which the related costs are incurred. All revenues are recorded net of any applicable allowances for returns or discounts.

We received $10 million of non-refundable research funding from Applied Biosystems in connection with a licensing and development contract entered into in 1999. This amount was originally recorded as deferred revenue in accordance with the provisions of SAB 101 and would have been recognized as revenue at a contractually defined rate of 25% of the defined operating profit earned from sales of the products covered by the collaboration agreement, had such sales occurred. At present, we do not believe a collaboration product will be commercialized under the partnership agreement, and there are legal proceedings between the parties as more fully described in ITEM 3, "Legal Proceedings". The $10 million of research funding has been reclassified to an advance payment from former collaborator until the legal proceedings have been resolved.

Cash & Investments. We invest our excess cash balances in marketable debt securities, primarily government securities and corporate bonds and notes, with strong credit ratings. We classify our investments as "Available-for-Sale" under SFAS 115 and record such investments at the estimated fair value in the balance sheet, with gains and losses, if any, reported in stockholders' equity. We periodically review our investments for other than temporary impairment.

Recently Issued Accounting Standards

In November 2002, the FASB Emerging Issues Task Force issued its consensus concerning *Revenue Arrangements with Multiple Deliverables* ("EITF 00-21"). EITF 00-21 addresses how to determine whether a revenue arrangement involving multiple deliverables should be divided into separate units of accounting, and, if separation is appropriate, how the arrangement consideration should be measured and allocated to the identified accounting units. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF 00-21 did not have a material impact on our consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* FIN 45 requires a liability to be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a reconciliation of changes in the entity's product warranty liabilities. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for financial statements ending after December 15, 2002. The adoption of FIN 45 did not have a material impact on our consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities.* SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS No. 133 and when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, for hedging relationships designated after June 30, 2003, and to certain pre-existing contracts. The adoption of SFAS No. 149 did not have a material impact on our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.* SFAS No. 150 affects the issuer's accounting for three types of freestanding financial instruments; (a) mandatorily redeemable shares which the issuing company is obligated to buy back in exchange for cash or other assets, (b) put options and forward purchase contracts that do or may require the issuer to buy back some of its shares in exchange for cash or other assets, and (c) obligations that can be settled with shares, the monetary value of which is fixed, ties solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuer's shares. SFAS No. 150 also requires disclosures about alternative ways of settling the instruments and the capital structure of entities. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003 and for all periods beginning after June 15, 2003. The adoption of SFAS 150 did not have a material impact on our consolidated financial statements.

In December 2003, the FASB issued a revision to FASB Interpretation No. 46 ("FIN 46R"), *Consolidation of Variable Interest Entities.* FIN 46R replaces FASB Interpretation No. 46, *Consolidation of Variable Interest Entities,* which was issued in January 2003. FIN 46R requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A variable interest entity either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources to the entity to support its activities. FIN 46R is effective immediately for all new variable interest entities created or acquired after December 31, 2003. The adoption of FIN 46 is not expected to have a material impact on our consolidated financial statements.

Factors Affecting Our Operating Results

In addition to the items mentioned above, the following issues could adversely affect our operating results or our stock price.

We have generated only a small amount of revenue from product and service offerings to date. We expect to continue to incur net losses and we may not achieve or maintain profitability.

We have incurred net losses since our inception and expect to continue to incur net losses. At December 28, 2003, our accumulated deficit was approximately $117.5 million, and we incurred a net loss of $27.1 million for the fiscal year ended December 28, 2003. We expect to continue to incur net losses and negative cash flow for the foreseeable future. The magnitude of our net losses will depend, in part, on the rate of growth, if any, of our revenue and on the level of our expenses. We expect to continue incurring significant expenses for research and development, for developing our manufacturing capabilities and for sales and marketing efforts to commercialize our products. In addition, we expect that our selling and marketing expenses will increase at a higher rate in the future as a result of the launch of our BeadLab and BeadStation SNP genotyping system and gene expression systems. As a result, we expect that our operating expenses will increase significantly as we grow and, consequently, we will need to generate significant additional revenue to achieve profitability. Even if we achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis.

Our success depends upon the increasing availability of genetic information and the continued emergence and growth of markets for analysis of genetic variation and function.

We design our products primarily for applications in the life sciences and pharmaceutical industries. The usefulness of our technology depends in part upon the availability of genetic data and its usefulness in identifying or treating disease. We are initially focusing on markets for analysis of genetic variation and function, namely SNP genotyping and gene expression profiling. Our first products are being sold into the SNP genotyping and focused-gene expression markets. Both of these markets are new and emerging, and they may not develop as quickly as we anticipate, or reach their full potential. Other methods of analysis of genetic variation and function may emerge and displace the methods we are developing. Also, researchers may not seek or be able to convert raw genetic data into medically valuable information through the analysis of genetic variation and function. If useful genetic data is not available or if our target markets do not develop in a timely manner, demand for our products may grow at a slower rate than we expect, and we may never become profitable.

We are an early stage company with a limited history of commercial sales of systems and consumable products, and our success depends on our ability to develop commercially successful products and on market acceptance of our new and unproven technologies.

We may not possess all of the resources, capability and intellectual property necessary to develop and commercialize all the products or services that may result from our technologies. We only recently sold our first genotyping systems, and some of our other technologies are in the early stages of commercialization or are still in development. You should evaluate us in light of the uncertainties and complexities affecting an early stage company developing tools for the life sciences and pharmaceutical industries. We must conduct a substantial amount of additional research and development before some of our products will be ready for sale. Problems frequently encountered in connection with the development or early commercialization of products and services using new and unproven technologies might limit our ability to develop and successfully commercialize these products and services. In addition, we may need to enter into agreements to obtain intellectual property necessary to commercialize some of our products or services.

Historically, life sciences and pharmaceutical companies have analyzed genetic variation and function using a variety of technologies. Compared to the existing technologies, our technologies are new and relatively unproven. In order to be successful, our products must meet the commercial requirements of the life sciences and pharmaceutical industries as tools for the large-scale analysis of genetic variation and function.

Market acceptance will depend on many factors, including:

- our ability to demonstrate to potential customers the benefits and cost effectiveness of our products and services relative to others available in the market;
- the extent and effectiveness of our efforts to market, sell and distribute our products;
- our ability to manufacture products in sufficient quantities with acceptable quality and reliability and at an acceptable cost; and
- the willingness and ability of customers to adopt new technologies requiring capital investments.

We have limited experience in manufacturing commercial products and services.

We have limited experience manufacturing our products in the volumes that will be necessary for us to achieve significant commercial sales. We have only recently begun manufacturing products on a commercial scale and operating our internal SNP genotyping service product line. For example, in the past we have experienced variations in manufacturing conditions that have temporarily reduced production yields. Due to the intricate nature of manufacturing products that contain DNA, we may encounter similar or previously unknown manufacturing difficulties in the future that could significantly reduce production yields, impact our ability to sell these products, or to produce them economically, may prevent us from achieving expected performance levels or cause us to set prices that hinder wide adoption by customers.

If we are unable to develop our manufacturing capability, we may not be able to launch or support our products in a timely manner, or at all.

We currently possess only one facility capable of manufacturing our products and services for both sale to our customers and internal use. If a natural disaster were to significantly damage our facility or if other events were to cause our operations to fail, these events could prevent us from developing and manufacturing our products and services.

If we are unable to find third-party manufacturers to manufacture components of our products, we may not be able to launch or support our products in a timely manner, or at all.

The nature of our products requires customized components that currently are available from a limited number of sources. For example, we currently obtain the fiber optic bundles and BeadChip slides included in our products from single vendors. If we are unable to secure a sufficient supply of those or other product components, we will be unable to meet demand for our products. We may need to enter into contractual relationships with manufacturers for commercial-scale production of some of our products, or develop these capabilities internally, and we cannot assure you that we will be able to do this on a timely basis, for sufficient quantities or on commercially reasonable terms. Accordingly, we may not be able to establish or maintain reliable, high-volume manufacturing at commercially reasonable costs.

Our current sales, marketing and technical support organization may limit our ability to sell our products.

We currently have limited sales and marketing and technical support services and have only recently established a small direct sales force and customer support team. In order to effectively

commercialize our genotyping and gene expression systems and other products to follow, we will need to expand our sales, marketing and technical support staff both domestically and internationally. We may not be successful in establishing or maintaining either a direct sales force or distribution arrangements to market our products and services. In addition, we compete primarily with much larger companies, that have larger sales and distribution staffs and a significant installed base of products in place, and the efforts from a limited sales and marketing force may not be sufficient to build the market acceptance of our products required to support continued growth of our business.

We expect intense competition in our target markets, which could render our products obsolete or substantially limit the volume of products that we sell. This would limit our ability to compete and achieve profitability. If we cannot continuously develop and commercialize new products, our revenues may not grow as intended.

We compete with life sciences companies that design, manufacture and market instruments for analysis of genetic variation and function and other applications using technologies such as two-dimensional electrophoresis, capillary electrophoresis, mass spectrometry, flow cytometry, microfluidics, and mechanically deposited, inkjet and photolithographic arrays. We anticipate that we will face increased competition in the future as new companies enter the market with new technologies. The markets for our products are characterized by rapidly changing technology, evolving industry standards, changes in customer needs, emerging competition and new product introductions. For example, we expect Affymetrix to release a 100k SNP genotyping chip and several competitors have begun selling a single chip for whole human genome expression which may compete with our SNP genotyping service and product offerings and our gene expression product offerings. One or more of our competitors may render our technology obsolete or uneconomical. Our competitors have greater financial and personnel resources, broader product lines, a more established customer base and more experience in research and development than we have. Furthermore, the life sciences and pharmaceutical companies, which are our potential customers and strategic partners, could develop competing products. If we are unable to develop enhancements to our technology and rapidly deploy new product offerings, our business, financial condition and results of operations will suffer.

We may encounter difficulties in managing our growth. These difficulties could increase our losses.

We expect to experience rapid and substantial growth in order to achieve our operating plans, which will place a strain on our human and capital resources. If we are unable to manage this growth effectively, our losses could increase. Our ability to manage our operations and growth effectively requires us to continue to expend funds to enhance our operational, financial and management controls, reporting systems and procedures and to attract and retain sufficient numbers of talented employees. If we are unable to scale up and implement improvements to our manufacturing process and control systems in an efficient or timely manner, or if we encounter deficiencies in existing systems and controls, then we will not be able to make available the products required to successfully commercialize our technology. Failure to attract and retain sufficient numbers of talented employees will further strain our human resources and could impede our growth.

Any inability to adequately protect our proprietary technologies could harm our competitive position.

Our success will depend in part on our ability to obtain patents and maintain adequate protection of our intellectual property in the United States and other countries. If we do not protect our intellectual property adequately, competitors may be able to use our technologies and thereby erode our competitive advantage. The laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and many companies have encountered significant problems in protecting their proprietary rights abroad. These problems can be caused by the absence of rules and methods for defending intellectual property rights.

The patent positions of companies developing tools for the life sciences and pharmaceutical industries, including our patent position, generally are uncertain and involve complex legal and factual questions. We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. We will apply for patents covering our technologies and products, as we deem appropriate. However, our patent applications may be challenged and may not result in issued patents. Our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. There also is risk that others may independently develop similar or alternative technologies or design around our patented technologies.

In April 2003, Applied Biosystems served us with an amended complaint alleging patent infringement, asserting that our genotyping products infringe several patents owned by Applied Biosystems. Others may challenge or invalidate our patents or claim that we infringe the rights of third party patents, however, we are not aware of any other such parties that currently intend to pursue patent infringement claims against us. Also, our patents may fail to provide us with any competitive advantage. We may need to initiate additional lawsuits to protect or enforce our patents, or litigate against third party claims, which would be expensive and, if we lose, may cause us to lose some of our intellectual property rights and reduce our ability to compete in the marketplace.

We also rely upon trade secret protection for our confidential and proprietary information. We have taken security measures to protect our proprietary information. These measures, however, may not provide adequate protection for our trade secrets or other proprietary information. We seek to protect our proprietary information by entering into confidentiality agreements with employees, collaborators and consultants. Nevertheless, employees, collaborators or consultants may still disclose our proprietary information, and we may not be able to meaningfully protect our trade secrets. In addition, others may independently develop substantially equivalent proprietary information or techniques or otherwise gain access to our trade secrets.

Litigation or other proceedings or third party claims of intellectual property infringement could require us to spend significant time and money and could prevent us from selling our products or services.

Our commercial success depends in part on our non-infringement of the patents or proprietary rights of third parties and the ability to protect our own intellectual property. Applied Biosystems has served us with an amended complaint alleging patent infringement and other third parties have or may assert that we are employing their proprietary technology without authorization. In addition, third parties have or may obtain patents in the future and claim that use of our technologies infringes these patents. We could incur substantial costs and divert the attention of our management and technical personnel in defending ourselves against any of these claims. We may incur the same costs and diversions in enforcing our patents against others. Furthermore, parties making claims against us may be able to obtain injunctive or other relief, which effectively could block our ability to further develop, commercialize and sell products, and could result in the award of substantial damages against us. In the event of a successful claim of infringement against us, we may be required to pay damages and obtain one or more licenses from third parties, or be prohibited from selling certain products. We may not be able to obtain these licenses at a reasonable cost, or at all. In that event, we could encounter delays in product introductions while we attempt to develop alternative methods or products. Defense of any lawsuit or failure to obtain any of these licenses could prevent us from commercializing available products, and the prohibition of sale of any of our products could materially affect our ability to grow and to attain profitability.

We may need additional capital in the future. If additional capital is not available on acceptable terms, we may have to curtail or cease operations.

Our future capital requirements will be substantial and will depend on many factors including our ability to successfully market our genetic analysis systems and services, the need for capital expenditures to support and expand our business, the progress and scope of our research and development projects, the filing, prosecution and enforcement of patent claims, the success of our legal proceedings with Applied Biosystems and the appeal of a wrongful termination lawsuit. We anticipate that our existing capital resources will enable us to maintain currently planned operations for at least 18 to 24 months. However, we premise this expectation on our current operating plan, which may change as a result of many factors. Consequently, we may need additional funding sooner than anticipated. Our inability to raise capital would seriously harm our business and product development efforts. In addition, we may choose to raise additional capital due to market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. To the extent that additional capital is raised through the sale of equity, the issuance of these securities could result in dilution to our stockholders.

We currently have no credit facility or committed sources of capital other than an equipment lease line with $1.7 million unused and available as of December 28, 2003. To the extent operating and capital resources are insufficient to meet future requirements; we will have to raise additional funds to continue the development and commercialization of our technologies. These funds may not be available on favorable terms, or at all. If adequate funds are not available on attractive terms, we may be required to curtail operations significantly or to obtain funds by entering into financing, supply or collaboration agreements on unattractive terms.

If we lose our key personnel or are unable to attract and retain additional personnel, we may be unable to achieve our goals.

We are highly dependent on our management and scientific personnel, including Jay Flatley, our president and chief executive officer, David Barker, our vice president and chief scientific officer, and John Stuelpnagel, our senior vice president of operations. The loss of their services could adversely impact our ability to achieve our business objectives. We will need to hire additional qualified personnel with expertise in molecular biology, chemistry, biological information processing, sales, marketing and technical support. We compete for qualified management and scientific personnel with other life science companies, universities and research institutions, particularly those focusing on genomics. Competition for these individuals, particularly in the San Diego area, is intense, and the turnover rate can be high. Failure to attract and retain management and scientific personnel would prevent us from pursuing collaborations or developing our products or technologies.

Our planned activities will require additional expertise in specific industries and areas applicable to the products developed through our technologies, including the life sciences and healthcare industries. Thus, we will need to add new personnel, including management, and develop the expertise of existing management. The failure to do so could impair the growth of our business.

A significant portion of our sales are to international customers.

Approximately $14.4 million of our 2003 revenues were derived from customers outside the United States. We intend to continue to expand our international presence and export sales to international customers and we expect the total amount of non-U.S. sales to continue to grow. Export sales entail a variety of risks, including:

- currency exchange fluctuations;
- unexpected changes in legislative or regulatory requirements of foreign countries into which we import our products;

- difficulties in obtaining export licenses or other trade barriers and restrictions resulting in delivery delays; and
- significant taxes or other burdens of complying with a variety of foreign laws.

In addition, sales to international customers typically result in longer payment cycles and greater difficulty in accounts receivable collection. We are also subject to general geopolitical risks, such as political, social and economic instability and changes in diplomatic and trade relations. One or more of these factors could have a material adverse effect on our business, financial condition and operating results.

We expect that our results of operations will fluctuate. This fluctuation could cause our stock price to decline.

A significant portion of our current revenue is derived from a few large, individual transactions such as the sale of production genotyping systems and large genotyping services contracts, including our work on the International HapMap Project. Because these transactions do not occur regularly and there is a lengthy sales cycle for such transactions, revenue of these types may not occur on a consistent or frequent basis. In addition, our total amount of revenues is subject to fluctuations in demand from seasonality impacts, the timing and amount of U.S. government grant funding programs, the timing and size of research projects our customers perform and changes in overall spending levels in the life sciences industry. Given the difficulty in predicting the timing and magnitude of sales for our products, we may experience quarter-to-quarter fluctuations in revenue resulting in the potential for a sequential decline in quarterly revenue. A large portion of our expenses are relatively fixed, including expenses for facilities, equipment and personnel. In addition, we expect operating expenses to continue to increase significantly. Accordingly, if revenue does not grow as anticipated, we may not be able to reduce our operating losses. Due to the possibility of fluctuations in our revenue and expenses, we believe that quarterly comparisons of our operating results are not a good indication of our future performance. If our operating results fluctuate or do not meet the expectations of stock market analysts and investors, our stock price probably would decline.

Item 7A. ***Quantitative and Qualitative Disclosure about Market Risk.***

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. The fair market value of fixed rate securities may be adversely impacted by fluctuations in interest rates while income earned on floating rate securities may decline as a result of decreases in interest rates. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities. A hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of our interest sensitive financial instruments.

Our equipment financings, amounting to $0.3 million as of December 28, 2003, are all at fixed rates and therefore, have no exposure to changes in interest rates. In January 2002, we assumed a $26.0 million mortgage in connection with the purchase of a new facility and related land. The interest rate on this loan is fixed for a 10-year period and consequently there is no exposure to increasing market interest rates.

We have not had any significant exposure to foreign currency rate fluctuations, nor do we have any foreign currency hedging instruments in place.

Item 8. ***Financial Statements and Supplementary Data.***

The Report of Independent Auditors, Financial Statements and Notes to Financial Statements begin on page F-1 immediately following the signature page and are incorporated here by reference.

Our fiscal year is 52 or 53 weeks ending on the Sunday closest to December 31. Our quarters are 13 or 14 weeks ending on the Sunday closest to March 31, June 30 and September 30.

Item 9. ***Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.***

Not applicable.

Item 9A. ***Controls and Procedures.***

We have established and maintain disclosure controls and procedures to ensure that we record, process, summarize, and report information we are required to disclose in our periodic reports filed with the Securities and Exchange Commission in the manner and within the time periods specified in the SEC's rules and forms. We also design our disclosure controls to ensure that the information is accumulated and communicated to our management, including the chief executive officer and the chief financial officer, as appropriate to allow timely decisions regarding required disclosure. We also maintain internal controls and procedures to ensure that we comply with applicable laws and our established financial policies. We design our internal controls to provide reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported in conformity with accounting principles generally accepted in the United States.

We have evaluated the design and operation of our disclosure controls and procedures to determine whether they are effective in ensuring that the disclosure of required information is timely made in accordance with the Exchange Act and the rules and regulations of the Securities and Exchange Commission. This evaluation was made under the supervision and with the participation of management, including our chief executive officer and chief financial officer as of December 28, 2003. Our management does not expect that our disclosure controls or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Notwithstanding, we have designed our internal control system with a level of controls that we believe will prevent material errors in our consolidated financial statements.

The chief executive officer and chief financial officer have concluded, based on their review, that our disclosure controls and procedures, as defined at Exchange Act Rules 13a-14(c) and 15d-14(c), are effective to ensure that information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and that our internal controls are effective to provide reasonable assurance that our financial statements are fairly presented in conformity with accounting principles generally accepted in the United States. No significant changes were made to our internal controls or other factors that could significantly affect these controls during the fourth quarter of 2003.

Exhibit 217

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Item 6. *Selected Financial Data.*

The following selected historical consolidated financial data have been derived from our audited consolidated financial statements. The balance sheet data as of January 2, 2005 and December 28, 2003 and statements of operations data for each of the three years in the period ended January 2, 2005 are derived from audited consolidated financial statements included in this Form 10-K. The balance sheet data as of December 29, 2002, December 30, 2001 and December 31, 2000 and statements of operations data for each of the two years in the period ended December 30, 2001 are derived from our audited consolidated financial statements that are not included in this report. You should read this table in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 8, "Financial Statements and Supplementary Data."

Statements of Operations Data

	Year Ended January 2, 2005	Year Ended December 28, 2003	Year Ended December 29, 2002	Year Ended December 30, 2001	Year Ended December 31, 2000
	(In thousands, except per share data)				
Revenue:					
Product revenue	$40,497	$ 18,378	$ 4,103	$ 897	$ 42
Service revenue	8,075	6,496	3,305	99	—
Research revenue	2,011	3,161	2,632	1,490	1,267
Total revenue	50,583	28,035	10,040	2,486	1,309
Costs and expenses:					
Cost of product revenue	11,572	7,437	1,815	489	—
Cost of service revenue	1,687	2,600	1,721	68	—
Research and development	21,114	22,511	26,848	20,735	13,554
Selling, general and administrative	25,080	18,899	9,099	5,663	4,193
Amortization of deferred compensation and other non-cash compensation charges	844	2,454	4,360	5,850	6,797
Litigation judgment (settlement), net	(4,201)	756	8,052	—	—
Total costs and expenses	56,096	54,657	51,895	32,805	24,544
Loss from operations	(5,513)	(26,622)	(41,855)	(30,319)	(23,235)
Interest income	941	1,821	3,805	6,198	4,722
Interest and other expense	(1,653)	(2,262)	(2,281)	(702)	(93)
Net loss	$ (6,225)	$(27,063)	$(40,331)	$(24,823)	$(18,606)
Net loss per share, basic and diluted	$ (0.17)	$ (0.85)	$ (1.31)	$ (0.83)	$ (1.37)
Shares used in calculating net loss per share, basic and diluted	35,845	31,925	30,890	29,748	13,557

Balance Sheet Data

	January 2, 2005	December 28, 2003	December 29, 2002	December 30, 2001	December 31, 2000
			(In thousands)		
Cash, cash equivalents and current restricted cash and investments	$ 66,994	$ 32,882	$66,294	$93,786	$118,719
Working capital	64,643	32,229	58,522	91,452	126,260
Total assets	94,907	99,234	121,906	122,465	132,793
Long-term debt obligations	—	24,999	25,620	590	887
Accumulated deficit	(123,712)	(117,487)	(90,424)	(50,093)	(25,270)
Total stockholders' equity	72,262	47,388	71,744	106,791	124,100

See Note 1 of Notes to Consolidated Financial Statements for an explanation of the determination of the number of shares used to compute basic and diluted net loss per share.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operation.*

The following discussion and analysis should be read with "Selected Financial Data" and our consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. The discussion and analysis in this Annual Report on Form 10-K may contain forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. The cautionary statements made in this Annual Report on Form 10-K should be read as applying to all related forward-looking statements wherever they appear in this Annual Report on Form 10-K. Our actual results could differ materially from those discussed here. Factors that could cause or contribute to these differences include those discussed in "Factors Affecting Operating Results" below as well as those discussed elsewhere.

Overview

Illumina, Inc. was incorporated in April 1998. We develop and market next-generation tools for the large-scale analysis of genetic variation and function. Understanding genetic variation and function is critical to the development of personalized medicine, a key goal of genomics. Using our technologies, we have developed a comprehensive line of products that are designed to provide the throughput, cost effectiveness and flexibility necessary to enable researchers in the life sciences and pharmaceutical industries to perform the billions of tests necessary to extract medically valuable information from advances in genomics. This information is expected to correlate genetic variation and gene function with particular disease states, enhancing drug discovery, allowing diseases to be detected earlier and more specifically, and permitting better choices of drugs for individual patients.

In 2001, we began commercial sale of short pieces of DNA, or oligos, manufactured using our proprietary Oligator technology. We believe our Oligator technology is more cost effective than competing technologies, which has allowed us to market our oligonucleotides under a price leadership strategy while still achieving attractive gross margins. In 2001, we also initiated our SNP genotyping services product line. As a result of the increasing market acceptance of our high throughput, low cost BeadArray technology, we have entered into genotyping services contracts with many leading genotyping centers, and have been awarded $9.1 million from the National Institutes of Health to play a major role in the first phase of the International HapMap Project.

Our production-scale BeadLab is based on the system we developed that has been operational in our genotyping service product line since 2001. In addition to our Sentrix Array Matrices, it includes the BeadArray Reader, a proprietary scanner that uses a laser to read the results of experiments captured on our arrays, as well as the GoldenGate SNP genotyping assay which can analyze up to 1536 SNPs per DNA sample. This system is being marketed to a small number of high throughput genotyping users. As of January 2, 2005, we have installed and recorded revenue for nine BeadLabs.

In 2003, we announced the launch of several new products, including 1) a new array format, the Sentrix BeadChip, which significantly expands market opportunities for our BeadArray technology and provides increased experimental flexibility for life science researchers; 2) a gene expression product line on both the Sentrix Array Matrix and the Sentrix BeadChip that allows researchers to analyze a focused set of genes across eight to 96 samples on a single array; and 3) a benchtop SNP genotyping and gene expression system, the BeadStation, for performing moderate-scale genotyping and gene expression using our technology. The BeadStation includes our BeadArray Reader, analysis software and assay reagents and is designed to match the throughput requirements and variable automation needs of individual research groups and core labs. Sales of these products began in the first quarter of 2004 and, as of January 2, 2005, we have shipped 42 BeadStations.

In 2004, we announced the launch of new Sentrix BeadChips for whole-genome gene expression and whole-genome genotyping. The whole-genome gene expression BeadChips are designed to enable high-performance, cost-effective, whole-genome expression profiling of multiple samples on a single chip, resulting in a dramatic reduction in cost of whole-genome expression analysis while allowing researchers to expand the scale and reproducibility of large-scale biological experimentation. The whole-genome genotyping BeadChip can be scaled to unlimited levels of multiplexing without compromising data quality and will provide scientists the ability to query hundreds of thousands of SNPs in parallel. In 2004, we also announced two new versions of the Sentrix Array Matrix designed for researchers who want to take advantage of our technology, but whose projects require fewer SNPs per sample than the number utilized on our standard 1536-plex array products.

In late 2004, we announced a strategic collaboration with Invitrogen Corporation to synthesize and distribute oligos. Under the agreement, we intend to expand our Oligator DNA synthesis technology to include both plate and tube based capability and Invitrogen will be responsible for sales, marketing and technical support. Profits from sales of collaboration products will be divided equally between the two companies.

In early 2005, we expanded our gene expression portfolio by announcing the launch of a new assay, DASL, for generating gene expression profiles from RNA samples including those containing partially degraded RNAs. We also announced a standard DASL cancer panel. Prior to our DASL assay, degraded RNA samples have been reliably assayed only with expensive, low-multiplex approaches.

In February 2005, we signed a definitive agreement and plan of merger with CyVera Corporation, a privately-held Connecticut-based company, pursuant to which CyVera will become a wholly-owned subsidiary of Illumina. CyVera's digital-microbead platform is highly complementary to our portfolio of products and services and upon closing of the transaction, will become an integral part of our BeadArray technology. The acquisition is expected to provide us with a comprehensive approach to bead-based assays for biomarker R&D and in-vitro and molecular diagnostic opportunities, including those that require low-complexity as well as high-complexity testing. The aggregate consideration for the transaction is $17.5 million, consisting of approximately 1.5 million shares of Illumina common stock and the payment of approximately $2.3 million of CyVera's liabilities at the closing. The closing is subject to customary closing conditions and is expected to occur by the end of March 2005. We expect the first products based on CyVera's technology to be available in the second half in 2006.

We are seeking to expand our customer base for our BeadArray technology; however, we can give no assurance that our sales efforts will continue to be successful.

Our revenues are subject to fluctuations due to the timing of sales of high-value products and service projects, the impact of seasonal spending patterns, the timing and amount of government grant funding programs, the timing and size of research projects our customers perform, changes in overall spending levels in the life science industry and other unpredictable factors that may affect our customer ordering patterns. Approximately 30% of our revenues for the year 2004 resulted from transactions that were funded under the International HapMap Project. We currently expect that most of the activities under this grant involving the Company and its customers will be completed in early 2005. We expect that the planned commercial launch of our whole genome genotyping and gene expression arrays, combined with the continued expansion of our existing product lines, will offset the loss of revenues funded by the HapMap grant and will drive future revenue growth. However, any significant delays in the commercial launch of these new products, unfavorable sales trends in our existing product lines, or impacts from the other factors mentioned above, could adversely affect our revenue growth in 2005 or cause a sequential decline in quarterly revenues. Due to the possibility of fluctuations in our revenue and net income or loss, we believe quarterly comparisons of our operating results are not a good indication of our future performance.

We have incurred substantial operating losses since our inception. As of January 2, 2005, our accumulated deficit was $123.7 million, and total stockholders' equity was $72.3 million. These losses have principally occurred as a result of the substantial resources required for the research, development and manufacturing scale up effort required to commercialize our products and services, as well as charges of $5.9 million related to a termination-of-employment lawsuit. We expect to continue to incur substantial costs for research, development and manufacturing scale up activities over the next several years. We will also need to significantly increase our selling, general and administrative costs as we build up our sales and marketing infrastructure to expand and support the sale of systems, other products and services. As a result of the expected increase in expenses, we will need to increase revenue significantly to achieve profitability.

Critical Accounting Estimates

General

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements requires that management make estimates, assumptions and judgments with respect to the application of accounting policies that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

Our significant accounting policies are described in Note 1 to our consolidated financial statements. Certain accounting policies are deemed critical if 1) they require an accounting estimate to be made based on assumptions that were highly uncertain at the time the estimate was made, and 2) changes in the estimate that are reasonably likely to occur, or different estimates that we reasonably could have used, would have a material effect on our consolidated financial statements.

Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed the disclosure. In addition, there are other items within our financial statements that require estimation, but are not deemed critical as defined above.

We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of the consolidated financial statements.

Revenue Recognition

Our sales are primarily from two sources: product revenue and services revenue. Product revenue consists of sales of oligonucleotides, arrays, assay reagents, genotyping systems and gene expression systems. Services revenue consists of revenue received for performing genotyping services and extended warranty sales. As described below, significant judgments and estimates must be made and used in connection with the revenue recognized in any accounting period.

We recognize revenue in accordance with the guidelines established by SEC Staff Accounting Bulletin (SAB) No. 104. Under SAB 104, revenue cannot be recorded until all of the following criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller's price to the buyer is fixed or determinable; and collectibility is reasonably assured.

Product delivery generally occurs when product is delivered to a common carrier or when the customer receives the product, depending on the nature of the arrangement and provided no significant obligations remain. BeadLabs are considered delivered upon shipment, installation, training and fulfillment of contractually defined acceptance criteria and we need to determine the completion of each of these deliverables before revenue can be recognized. Genotyping services are considered delivered generally at the time the genotyping data is delivered to the customer. We have been awarded $9.1 million from the National Institutes of Health to perform genotyping services in connection with the first phase of the International HapMap Project. A portion of the services related to this project is considered delivered at the time the related costs are incurred while the remainder is considered delivered upon the delivery of genotyping data.

In order to assess whether the price is fixed and determinable, we ensure there are no refund rights. If payment terms are based on future performance, we defer revenue recognition until the price becomes fixed and determinable. We assess collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If we determine that collection of a payment is not reasonably assured, we defer revenue recognition until the time collection becomes reasonably assured, which is generally upon receipt of payment. Changes in judgments and estimates made in determining whether the criteria of SAB 104 have been met might result in a change in the timing or amount of revenue recognized.

Sales of our genotyping and gene expression systems include a standard one year warranty. We also sell separately priced maintenance (extended warranty) contracts, which are generally for one or two years, upon the expiration of the initial warranty. Revenue for extended warranty sales is recognized ratably over the term of the extended warranty. Reserves are provided for estimated product warranty expenses at the time the associated revenue is recognized. If we were to experience an increase in warranty claims or if costs of servicing our warrantied products were greater than our estimates, our gross margins could be adversely affected.

While the majority of our sales agreements contain standard terms and conditions, we do enter into agreements that contain multiple elements or non-standard terms and conditions. Emerging Issues Task Force No. 00 21 ("EITF 00 21"), "Revenue Arrangements with Multiple Deliverables", provides guidance on accounting for arrangements that involve the delivery or performance of multiple products, services, or rights to use assets within contractually binding arrangements. Significant contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, how the price should be allocated among the deliverable elements, when to recognize revenue for each element, and the period over which revenue should be recognized. We recognize revenue for delivered elements only when we believe the fair values of undelivered elements are known and there are no uncertainties regarding customer acceptance.

A third source of revenue, research revenue, consists of amounts earned under research agreements with government grants, which is recognized in the period during which the related costs are incurred. All revenues are recorded net of any applicable allowances for returns or discounts.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We evaluate the collectibility of our accounts receivable based on a combination of factors. We regularly analyze customer accounts, review the length of time receivables are outstanding and review historical loss rates. If the financial condition of our customers were to deteriorate, additional allowances could be required.

Inventory Valuation

We record adjustments to inventory for potentially excess, obsolete or impaired goods in order to state inventory at net realizable value. We must make assumptions about future demand, market conditions and the release of new products that will supercede old ones. We regularly review inventory for excess and obsolete products and components, taking into account product life cycle and development plans, product expiration and quality issues, historical experience and our current inventory levels. If actual market conditions are less favorable than anticipated, additional inventory adjustments could be required.

Contingencies

We are subject to legal proceedings primarily related to intellectual property matters. Based on the information available at the balance sheet dates and through consultation with our legal counsel, we assess the likelihood of any adverse judgments or outcomes of these matters, as well as the potential ranges of probable losses. If losses are probable and reasonably estimable, we will record a reserve in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies". Currently we have no such reserves recorded. Any reserves recorded in the future may change due to new developments in each matter.

Recently Issued Accounting Standards

In December 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), *Share Based Payment* (SFAS 123R), which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). This statement supercedes APB Opinion 25, *Accounting for Stock Issued to Employees* (APB 25), and amends FASB Statement No. 95, *Statement of Cash Flows.* Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123; however, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. We currently utilize the Black Scholes model to measure the fair value of stock options granted to employees under the pro forma disclosure requirements of FAS 123. While SFAS 123R permits companies to continue to use such model, it also permits the use of a "lattice" model. We have not yet determined which model we will use to measure the fair value of employee stock options under the adoption for SFAS 123R. The new standard is effective for periods beginning after June 15, 2005, and we expect to adopt SFAS 123R on July 4, 2005.

We currently account for share-based payments to employees using APB 25's intrinsic value method and, as such, recognize no compensation cost for employee stock options granted with exercise prices equal to or greater than the fair value of our common stock on the date of the grant. Accordingly, the adoption of SFAS 123R's fair value method is expected to result in significant non-cash charges which will increase our reported operating expenses; however, it will have no impact on our cash flows. The impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on the level of share-based payments granted in the future and the model we choose to use. However, had we adopted SFAS 123R in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net loss under Stock-Based Compensation in Note 1 to our consolidated financial statements.

Results of Operations

To enhance comparability, the following table sets forth audited Consolidated Statements of Operations data for the years ended January 2, 2005, December 28, 2003 and December 29, 2002 stated as a percentage of total revenue.

	Year Ended January 2, 2005	Year Ended December 28, 2003	Year Ended December 29, 2002
Revenue			
Product revenue	80%	66%	41%
Service revenue	16	23	33
Research revenue	4	11	26
Total revenue	100	100	100
Costs and expenses:			
Cost of product revenue	23	27	18
Cost of service revenue	3	9	17
Research and development	41	80	267
Selling, general and administrative	50	67	91
Amortization of deferred compensation and other non-cash compensation charges	2	9	44
Litigation judgment (settlement), net	(8)	3	80
Total costs and expenses	111	195	517
Loss from operations	(11)	(95)	(417)
Interest income	2	6	38
Interest and other expense	(3)	(8)	(23)
Net loss	(12)%	(97)%	(402)%

Comparison of Years Ended January 2, 2005 and December 28, 2003

Our fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended January 2, 2005 and December 28, 2003 are 53 and 52 weeks, respectively.

Revenue

	Year Ended January 2, 2005	Year Ended December 28, 2003	Change
	(In thousands)		
Product revenue	$40,497	$18,378	120%
Service revenue	8,075	6,496	24
Research revenue	2,011	3,161	(36)
Total revenue	$50,583	$28,035	80%

Revenue for the years ended January 2, 2005 and December 28, 2003 was $50.6 million and $28.0 million, respectively. Product revenue increased to $40.5 million in 2004 from $18.4 million in 2003. The increase resulted almost entirely from sales of consumables used on our BeadLabs and BeadStations and sales of our benchtop BeadStations, offset by fewer sales of our production-scale BeadLabs. In 2003, we had no sales of BeadStations and we only began selling consumable products in May 2003.

Service revenue increased to $8.1 million in 2004 from $6.5 million in 2003. Substantially all of this increase relates to SNP genotyping services performed for the International HapMap Project. We are the recipient of a grant from the National Institutes of Health covering our participation in the first phase of the International HapMap Project, which is a $100 million internationally funded successor project to the Human Genome Project that will help identify a map of genetic variations that may be used to perform disease-related research. We could receive up to $9.1 million of funding for this project which covers basic research activities, the development of SNP assays and the genotyping to be performed on those assays. We have recognized revenue under this grant of $8.4 million and, as of the end of 2004, we had approximately $0.7 million of funding remaining related to this project which is expected to be received in early 2005.

Government grants and other research funding decreased to $2.0 million for the year ended January 2, 2005 from $3.2 million for the year ended December 28, 2003 primarily due to a decrease in internal research spending for our grant from the National Institutes of Health covering our participation in the International HapMap Project. We expect government grants to decline as a percentage of total revenues.

To expand revenue in the future, we have recently launched a series of new products that we expect to begin selling in 2005. These include a new assay, DASL, for generating gene expression profiles from RNA samples including those containing partially degraded RNAs, two multi-sample whole genome gene expression BeadChips and a whole genome genotyping BeadChip. Our BeadLabs address a limited number of potential high throughput genotyping customers, and sales of these systems may decline in 2005 versus 2004. In addition, approximately 30% of our revenues for the year 2004 resulted from transactions that were funded under the International HapMap Project. We expect that most of the activities under this grant involving us and our customers will be completed in early 2005 and that revenue related to this project will decline in 2005 versus 2004. We expect the sales of the new products mentioned above, combined with increased sales of BeadStations and revenue generated from our collaboration with Invitrogen, to offset such declines and for overall revenues to increase above 2004 levels; however, we cannot assure you that we will be successful in these sales efforts.

Cost of Product and Service Revenue

	Year Ended January 2, 2005	Year Ended December 28, 2003	Change
	(In thousands)		
Cost of product revenue	$11,572	$7,437	56%
Cost of service revenue	$ 1,687	$2,600	(35)%

Cost of product and service revenue represents manufacturing costs incurred in the production process, including component materials, assembly labor and overhead, packaging and delivery cost. Costs related to research revenue is included in research and development expense.

Cost of product revenue increased to $11.6 million for the year ended January 2, 2005 from $7.4 million for the year ended December 28, 2003. Substantially all of this increase was driven by the sales of our BeadStations and consumables. Gross margin on product revenue increased to 71% in the year ended January 2, 2005, from 60% for the year ended December 28, 2003, due primarily to increased sales of higher margin consumable products, as well as efficiencies gained in oligo manufacturing.

Cost of service revenue decreased to $1.7 million for the year ended January 2, 2005 from $2.6 million for the year ended December 28, 2003 and gross margin on service revenue increased to 79% in the year ended January 2, 2005, from 60% for the year ended December 28, 2003. This decrease in cost and increase in gross margin is due primarily to efficiencies gained in SNP genotyping services, as well as lower costs of oligos used in the genotyping services process.

We expect product mix will continue to affect our future gross margins, and any increase in the proportion of consumable sales to total sales will continue to favorably affect our gross margins. However, we expect our market will become increasingly price competitive, and over the longer term, our margins may decline.

Research and Development Expenses

	Year Ended January 2, 2005	Year Ended December 28, 2003	Change
	(In thousands)		
Research and development	$21,114	$22,511	(6)%

Our research and development expenses consist primarily of salaries and other personnel-related expenses, laboratory supplies and other expenses related to the design, development, testing and enhancement of our products. We expense our research and development expenses as they are incurred. Research and development expenses decreased $1.4 million to $21.1 million for the year ended January 2, 2005 from $22.5 million for the year ended December 28, 2003. Approximately $0.9 million of the decrease is attributable to personnel related expenses and related lab supplies and the majority of the remaining $0.5 million is attributable to lower manufacturing-related resources needed to support research efforts and a decrease in depreciation expense.

During the year ended January 2, 2005, the cost of BeadArray technology research activities decreased $0.4 million as compared to the year ended December 28, 2003. The decrease is primarily the result of completing the development of several products that were commercially launched in late 2003 and 2004 such as our BeadStation and focused gene set array products.

Research to support our Oligator technology platform decreased $1.0 million in the year ended January 2, 2005 as compared to the year ended December 28, 2003. In the second quarter of 2003, we implemented additional Oligator manufacturing and software enhancements to expand capacity, increase throughput, and further reduce operating costs. In addition, as we increase our product sales, a smaller portion of our manufacturing resources are now used to support research efforts as compared to the same periods in 2003.

We expect that our research and development expenses will increase in the near term due to the allocation to research and development of rent expense from the new lease on our building and increased spending levels for new product development. In addition, we expect an increase in research and development expenses in connection with our proposed acquisition of CyVera Corporation, which is expected to close in March 2005.

Stock based compensation related to research and development employees and consultants was $0.3 million for the year ended January 2, 2005 as compared to $1.3 million for the year ended December 28, 2003.

Selling, General and Administrative Expenses

	Year Ended January 2, 2005	Year Ended December 28, 2003	Change
	(In thousands)		
Selling, general and administrative	$25,080	$18,899	33%

Our selling, general and administrative expenses consist primarily of personnel costs for sales and marketing, finance, human resources, business development and general management, as well as professional fees, such as expenses for legal and accounting services. Selling, general and administrative expenses increased $6.2 million to $25.1 million for the year ended January 2, 2005 from $18.9 million for the year ended December 28, 2003. Approximately $5.2 million of the increase is due to higher sales and marketing costs, of which $4.1 million is attributable to personnel related expenses and $0.7 million is attributable to an increase in facility related expenses. Approximately $1.0 million of the increase in selling, general and administrative expenses is related to general and administrative costs, of which $0.4 million is related to personnel related expenses, and the majority of the remaining $0.6 million is attributable to expenses associated with Sarbanes-Oxley compliance and our international expansion. We expect that our selling, general and administrative expenses will accelerate as we expand our staff, add sales and marketing infrastructure, incur additional costs to support the commercialization and support of an increasing number of products, and due to the allocation to selling, general and administrative of rent expense from the new lease on our building.

Stock based compensation related to selling, general and administrative employees, directors and consultants was $0.5 million for the year ended January 2, 2005 as compared to $1.2 million for the year ended December 28, 2003.

Amortization of Deferred Compensation and Other Stock-Based Compensation Charges

	Year Ended January 2, 2005	Year Ended December 28, 2003	Change
	(In thousands)		
Amortization of deferred compensation and other stock-based compensation charges	$844	$2,454	(66)%

From our inception through July 27, 2000, in connection with the grant of certain stock options and sales of restricted stock to employees, founders and directors, we have recorded deferred stock compensation totaling $17.6 million, representing the difference between the exercise or purchase price and the fair value of our common stock as estimated for financial reporting purposes on the date such stock options were granted or such restricted stock was sold. We recorded this amount as a component of stockholders' equity and amortize the amount as a charge to operations over the vesting period of the restricted stock and options.

We recognize compensation expense over the vesting period for employees, founders and directors, using an accelerated amortization methodology in accordance with Financial Accounting Standards Board Interpretation No. 28. For consultants, deferred compensation is recorded at the fair value for the options granted or stock sold in accordance with Statement of Financial Accounting Standards No. 123 and is periodically re-measured and expensed in accordance with Emerging Issues Task Force No. 96-18.

We recorded amortization of deferred compensation of $0.8 million and $2.5 million for the years ended January 2, 2005 and December 28, 2003, respectively. We expect expenses related to stock based compensation to increase significantly beginning in the third quarter of 2005 as we implement the requirements of SFAS 123R. Although the adoption of SFAS 123R's fair value method is expected to result in a significant increase in our reported operating expenses, it will have no impact on our cash flows. SFAS 123R is discussed further in "Recently Issued Accounting Standards" above and Note 1 to our consolidated financial statements.

Litigation Judgment (Settlement), net

	Year Ended January 2, 2005	Year Ended December 28, 2003	Change
	(In thousands)		
Litigation judgment (settlement), net	$(4,201)	$756	(656)%

A $7.7 million charge was recorded in June 2002 to cover total damages and estimated expenses related to a jury verdict in a termination-of-employment lawsuit. We appealed the decision, and in December 2004, the Fourth Appellate District Court of Appeal, in San Diego, California, reduced the amount of the award. During the appeal process, the court required us to incur interest charges on the judgment amount at statutory rates until the case was resolved. For the years ended January 2, 2005 and December 28, 2003 we recorded $0.6 million and $0.8 million, respectively, as litigation expense for such interest charges. As a result of the revised judgment, we reduced the $9.2 million liability on our balance sheet to $5.9 million and recorded a gain of $3.3 million as a litigation judgment in the fourth quarter of 2004.

In 1999, we entered into a joint development agreement with Applied Biosystems Group, an operating group of Applera Corporation, under which the companies agreed to jointly develop a SNP genotyping system that would combine our BeadArray technology with Applied Biosystems' assay chemistry and scanner technology. In conjunction with the agreement, Applied Biosystems agreed to provide us with non-refundable research and development support of $10.0 million, all of which was provided by December 2001. As of December 28, 2003, this amount was recorded on our balance sheet as an advance payment from a former collaborator. In December 2002, Applied Biosystems initiated a patent infringement suit and sought to compel arbitration of an alleged breach of the joint development agreement. We initiated a suit in state court seeking to enjoin the arbitration and alleged that Applied Biosystems had breached the joint development agreement. In August 2004, we entered into a settlement and cross-license agreement with Applera. As a result of the settlement, we removed the $10.0 million liability from our balance sheet, made a payment of $8.5 million to Applera and recorded a gain of $1.5 million as a litigation settlement.

Interest Income

	Year Ended January 2, 2005	Year Ended December 28, 2003	Change
	(In thousands)		
Interest income	$941	$1,821	(48%)

Interest income on our cash and cash equivalents and investments was $0.9 million and $1.8 million for the years ended January 2, 2005 and December 28, 2003, respectively. The decrease is due to lower effective interest rates, partially offset by higher average cash balances.

Interest and Other Expense

	Year Ended January 2, 2005	Year Ended December 28, 2003	Change
	(In thousands)		
Interest and other expense	$1,653	$2,262	(27%)

Interest and other expense primarily consists of interest expense, which was $1.4 million and $2.2 million for the years ended January 2, 2005 and December 28, 2003, respectively. Interest expense relates primarily to a $26.0 million fixed rate loan which was paid off in August 2004 in connection with the sale of our San Diego facilities.

In the year ended January 2, 2005, we recorded approximately $150,000 in losses due to foreign currency transactions as compared to approximately $5,000 in gains, for the year ended December 28, 2003. Estimated foreign income taxes were approximately $135,000 and $45,000 for the years ended January 2, 2005 and December 28, 2003, respectively.

Provision for Income Taxes

We incurred net operating losses for the years ended January 2, 2005 and December 28, 2003, and accordingly, we did not pay any U.S. federal or state income taxes. We have recorded a valuation allowance for the full amount of the resulting net deferred tax asset, as the future realization of the tax benefit is uncertain. As of January 2, 2005, we had net operating loss carryforwards for federal and state tax purposes of approximately $86.5 million and $39.1 million, respectively, which begin to expire in 2018, unless previously utilized.

We also had U.S. federal and state research and development tax credit carryforwards of approximately $3.1 million and $3.0 million, respectively, which begin to expire in 2018, unless previously utilized.

Our utilization of the net operating losses and credits may be subject to substantial annual limitations pursuant to Section 382 and 383 of the Internal Revenue Code, and similar state provisions, as a result of changes in our ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization.

Comparison of Years Ended December 28, 2003 and December 29, 2002

Revenue

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Product revenue	$18,378	$ 4,103	348%
Service revenue	6,496	3,305	97
Research revenue	3,161	2,632	20
Total revenue	$28,035	$10,040	179%

Revenue for the years ended December 28, 2003 and December 29, 2002 was $28.0 million and $10.0 million, respectively. Product revenue increased to $18.4 million in 2003 from $4.1 million in 2002. The increase resulted almost entirely from the first sales of our BeadLab, with six systems sold in the year ended December 28, 2003, along with sales of consumables that are used on these systems. Prior to 2003 we had no sales of BeadLabs or consumable products. SNP genotyping service revenue increased to $6.5 million in 2003 from $3.3 million in 2002. Substantially all of this increase relates to genotyping services performed for the International HapMap Project, which commenced in 2003. Government grants and other research funding increased to $3.2 million for the year ended December 28, 2003 from $2.6 million for the year ended December 29, 2002 due to an increase in the number of grants received.

Cost of Product and Service Revenue

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Cost of product revenue	$7,437	$1,815	310%
Cost of service revenue	$2,600	$1,721	51%

Cost of product revenue increased to $7.4 million the year ended December 28, 2003 from $1.8 million for the year ended December 29, 2002. Substantially all of this increase was driven by the sales of our BeadLabs and consumables, of which we had none in 2002. Gross margin on product revenue increased to 60% in the year ended December 28, 2003, from 56% for the year ended December 29, 2002. This increase is due primarily to increased sales of higher margin products such as array matrices and assay reagents.

Cost of service revenue increased to $2.6 million the year ended December 28, 2003 from $1.7 million for the year ended December 29, 2002. Substantially all of this increase was driven by the higher level of SNP genotyping service revenue in 2003 as compared to 2002. Gross margin on service revenue increased to 60% in the year ended December 28, 2003, from 48% for the year ended December 29, 2002 due primarily to efficiencies gained in SNP genotyping services.

Research and Development

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Research and development	$22,511	$26,848	(16%)

Research and development expenses decreased $4.3 million to $22.5 million for the year ended December 28, 2003 from $26.8 million for the year ended December 29, 2002.

During the year ended December 28, 2003, the cost of BeadArray technology research activities decreased $3.8 million as compared to the year ended December 29, 2002. The decrease occurred primarily as a result of completing the development of new products launched in 2003. In addition, as we completed development efforts and increased our array-driven product sales, a smaller portion of our manufacturing resources was charged to research and development expense in 2003 than in 2002.

Research to support our Oligator technology platform decreased $0.5 million in the year ended December 28, 2003 as compared to the year ended December 29, 2002. This decline is primarily due to higher development expenses incurred in the first quarter of 2002 for a major upgrade of our Oligator technology, which resulted in a significant increase in our manufacturing capacity.

Stock based compensation related to research and development employees and consultants was $1.3 million for the year ended December 28, 2003 as compared to $2.4 million for the year ended December 29, 2002.

Selling, General and Administrative Expenses

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Selling, general and administrative	$18,899	$9,099	108%

Selling, general and administrative expenses increased $9.8 million to $18.9 million for the year ended December 28, 2003 from $9.1 million for the year ended December 29, 2002. Approximately $4.4 million of this increase is related to higher legal expenses, which is primarily due to legal proceedings regarding the disputes with Applied Biosystems. Approximately $4.1 million of the increase is due to higher sales and marketing costs, of which $3.0 million is attributable to personnel related expenses while the majority of the remaining $1.1 million is attributable to an increase in facility related expenses. During 2003, we significantly expanded our sales and marketing resources to support the direct sale of our new products, including establishing additional sales operations in Japan and Singapore.

Stock based compensation related to selling, general and administrative employees, directors and consultants was $1.2 million for the year ended December 28, 2003 as compared to $2.0 million for the year ended December 29, 2002.

Amortization of Deferred Compensation and Other Stock-Based Compensation Charges

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Amortization of deferred compensation and other stock-based compensation charges	$2,454	$4,360	(44%)

In connection with the grant of stock options and sale of restricted common stock to employees, founders and directors through July 27, 2000, we recorded deferred compensation of approximately $17.6 million. We recorded amortization of this deferred compensation of $2.5 million and $4.4 million for the years ended December 28, 2003 and December 29, 2002, respectively.

Litigation Judgment (Settlement), net

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Litigation judgment (settlement), net	$756	$8,052	(91%)

A $7.7 million charge was recorded in June 2002 to cover total damages and estimated expenses related to a jury verdict in a termination-of-employment lawsuit. We appealed the decision, and in December 2004, the Fourth Appellate District Court of Appeal, in San Diego, California, reduced the amount of the award. During the appeal process, the court required us to incur interest charges on the judgment amount at statutory rates until the case was resolved. For the years ended December 28, 2003 and December 29, 2002, we recorded $0.8 million and $0.4 million, respectively, as litigation expense for such interest charges.

Interest Income

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Interest income	$1,821	$3,805	(52%)

Interest income on our cash and cash equivalents and investments was $1.8 million and $3.8 million for the years ended December 28, 2003 and December 29, 2002, respectively. The decrease is due to lower average levels of invested funds and lower effective interest rates.

Interest and Other Expense

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Interest and other expense	$2,262	$2,281	(1%)

Interest expense was $2.2 million and $2.3 million for the years ended December 28, 2003 and December 29, 2002, respectively. Interest expense relates primarily to a $26.0 million fixed rate loan related to the purchase of our new facility during the first quarter of 2002.

Liquidity and Capital Resources

Cashflow

	Year Ended January 2, 2005	Year Ended December 28, 2003	Year Ended December 29, 2002
		(In thousands)	
Net cash used in operating activities	$(19,574)	$(18,256)	$(25,593)
Net cash provided by (used in) investing activities	57,022	28,468	(2,641)
Net cash provided by financing activities	4,875	216	26,106
Effect of foreign currency translation	1	—	—
Net increase (decrease) in cash and cash equivalents	$ 42,324	$ 10,428	$ (2,128)

As of January 2, 2005, we had cash, cash equivalents and investments (including restricted cash and investments of $12.2 million) of approximately $67.0 million. We currently invest our funds in U.S. dollar based investment-grade corporate and government debt securities, with strong credit ratings or short maturity mutual funds providing similar financial returns.

Our operating activities used cash of $19.6 million in the year ended January 2, 2005, as compared to $18.3 million in the year ended December 28, 2003. Net cash used in operating activities in the year ended January 2, 2005 was primarily the result of a net loss from operations of $6.2 million, the payment of an $8.5 million legal settlement, as described under "Litigation Judgment (Settlement), net" above, a $7.2 million increase in accounts receivable due to increased sales and a $2.0 million increase in other assets primarily for the security deposit for the building lease, reduced by non-cash charges of $4.0 million for depreciation and amortization. Net cash used in operating activities in the year ended December 28, 2003 was primarily the result of a net loss from operations of $27.1 million reduced by non-cash charges of $4.5 million for depreciation and amortization and non-cash charges of $2.5 million for amortization of deferred stock compensation.

Our investing activities provided cash of $57.0 million in the year ended January 2, 2005 as compared to $28.5 million in the year ended December 28, 2003. Cash provided in investing activities in the year ended January 2, 2005 was due to $40.7 million in proceeds from the sale of our land and buildings, net of fees, and $19.8 million from the sale or maturity of investment securities, net of purchases of investment securities used to provide operating funds for our business, reduced by $3.4 million for the purchase of property and equipment. Cash provided in investing activities in the year ended December 28, 2003 was due primarily to $30.5 million from the sale or maturity of investment securities, net of purchases of investment securities used to provide operating funds for our business, reduced by $2.0 million for the purchase of property and equipment.

Our financing activities provided $4.9 million in the year ended January 2, 2005 as compared to $0.2 million in the year ended December 28, 2003. Cash provided in financing activities in the year ended January 2, 2005 was due primarily to proceeds from the issuance of common stock, including $28.7 million of net proceeds from the sale of approximately 4.6 million shares of our common stock in May 2004, offset by the $25.2 million in long term debt we paid off in connection with the sale of our land and buildings. Cash provided in financing activities in the year ended December 28, 2003 was primarily due to proceeds from the issuance of common stock reduced by payments on long-term debt and equipment financings.

In June 2002, we recorded a $7.7 million charge to cover total damages and estimated expenses related to a termination-of-employment lawsuit. As a result of our decision to appeal the ruling, we filed a surety bond with the court in October 2002 of 1.5 times the judgment amount, or approximately $11.3 million. Under the terms of the bond, we were required to maintain a letter of credit for 90% of the bond amount to secure the bond. Further, we were required to deposit approximately $12.5 million of marketable securities as collateral for the letter of credit and accordingly, these funds were restricted from use for corporate purposes. A judgment was rendered in December 2004 and a $5.9 million payment was made in early 2005 at which time the restricted funds were released.

As of January 2, 2005, we had funding remaining under existing NIH grants of approximately $1.5 million, including $0.7 million available under the International HapMap Project. All of these amounts are expected to be paid in 2005, subject to the actual amount of activities we perform under these grants.

Based on our current operating plans, we expect that our current cash and cash equivalents, investments, revenues from sales and funding from grants will be sufficient to fund our anticipated operating needs for at least 24 months. Operating needs include the planned costs to operate our business including amounts required to fund working capital and capital expenditures. At the current time, we have no material commitments for capital expenditures. However, our future capital requirements and the adequacy of our available funds will depend on many factors, including our ability to successfully commercialize our SNP genotyping and gene expression systems and extensions to those products and to expand our oligonucleotide and SNP genotyping services product lines, scientific progress in our research and development programs, the magnitude of those programs, competing technological and market developments, the successful resolution of our legal proceedings with Affymetrix, the success of our collaboration with Invitrogen and the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings. Therefore, we may require additional funding within this 24 month time frame. In addition, we may choose to raise additional capital due to market conditions or strategic considerations, such as an acquisition, even if we believe we have sufficient funds for our current or future operating plans. Further, any additional equity financing may be dilutive to our then existing stockholders and may adversely affect their rights.

In December, 2003, we filed a shelf registration statement that would allow us to raise up to $65 million of funding through the sale of common stock in one or more transactions. In May 2004, we raised approximately $28.7 million, net of offering expenses, through the sale of our common stock under this shelf registration statement. We currently do not have plans to raise additional funds under this registration statement.

Off-Balance Sheet Arrangements and Contractual Obligations

We do not participate in any transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities ("SPEs"), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of January 2, 2005, we are not involved in any SPE transactions.

In January 2002, we purchased two newly constructed buildings and assumed a $26.0 million, 10-year mortgage on the property at a fixed interest rate of 8.36%. In June 2004, we entered into a conditional agreement to sell our land and buildings for $42.0 million and to lease back such property for an initial term of ten years. The sale was completed in August 2004 at which time the lease was signed. After the repayment of the remaining $25.2 million debt and other related transaction expenses, we received $15.5 million in net cash proceeds. We removed the land and net book value of the buildings of $36.9 million from our balance sheet and are recording the resulting $3.7 million gain on the sale of the property over the ten year lease term in accordance with SFAS 13, *Accounting for Leases*. Under the terms of the lease, we made a $1.9 million security deposit and are paying monthly rent of $318,643 for the first year with an annual increase of 3% in each subsequent year.

We also lease office space under non-cancelable operating leases that expire at various times through January 2007. These leases contain renewal options ranging from 2 to 3 years.

As of January 2, 2005, our enforceable and legally binding contractual obligations are (in thousands):

	Payments Due by Period				
Contractual Obligation	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Operating leases	$43,225	$4,251	$8,502	$8,576	$21,896
Total	$43,225	$4,251	$8,502	$8,576	$21,896

The above table does not include orders for goods and services entered into in the normal course of business that are not enforceable or legally binding.

Factors Affecting Our Operating Results

Our business is subject to various risks, including those described below. In addition to the other information included in this Form 10-K, the following issues could adversely affect our operating results or our stock price.

Litigation or other proceedings or third party claims of intellectual property infringement could require us to spend significant time and money and could prevent us from selling our products or services.

Our commercial success depends in part on our non-infringement of the patents or proprietary rights of third parties and the ability to protect our own intellectual property. While we recently settled our litigation with Applera Corporation's Applied Biosystems Group in August 2004, Affymetrix filed a complaint against us in July 2004, alleging infringement of six of its patents, and other third parties have or may assert that we are employing their proprietary technology without authorization. As we enter new markets, we expect that competitors will likely assert that our products infringe their intellectual property rights as part of a business strategy to impede our successful entry into those markets. In addition, third parties have or may obtain patents in the future and claim that use of our technologies infringes these patents. We could incur substantial costs and divert the attention of our management and technical personnel in defending ourselves against any of these claims. We may incur the same costs and diversions in enforcing our patents against others. Furthermore, parties making claims against us may be able to obtain injunctive or other relief, which effectively could block our ability to further develop, commercialize and sell products, and could result in the award of substantial damages against us. In the event of a successful claim of infringement against us, we may be required to pay damages and obtain one or more licenses from third parties, or be prohibited from selling certain products. We may not be able to obtain these licenses at a reasonable cost, or at all. In that event, we could encounter delays in product introductions while we attempt to develop alternative methods or products. Defense of any lawsuit or failure to obtain any of these licenses could prevent us from commercializing available products, and the prohibition of sale of any of our products could materially affect our ability to grow and to attain profitability.

We expect intense competition in our target markets, which could render our products obsolete, result in significant price reductions or substantially limit the volume of products that we sell. This would limit our ability to compete and achieve profitability. If we cannot continuously develop and commercialize new products, our revenues may not grow as intended.

We compete with life sciences companies that design, manufacture and market instruments for analysis of genetic variation and function and other applications using technologies such as two-dimensional electrophoresis, capillary electrophoresis, mass spectrometry, flow cytometry, microfluidics, and mechanically deposited, inkjet and photolithographic arrays. We anticipate that we will face increased competition in the future as existing companies develop new or improved products and as new companies enter the market with new technologies. The markets for our products are characterized by rapidly changing technology, evolving industry standards, changes in customer needs, emerging competition, new product introductions and strong price competition. For example, Affymetrix recently released a 100k SNP genotyping chip and has announced a 500k chip which will compete with our SNP genotyping service and product offerings and several competitors have begun selling a single chip for whole human genome expression which may compete with our gene expression product offerings. One or more of our competitors may render our technology obsolete or uneconomical. Our competitors have greater financial and personnel resources, broader product lines, a more established customer base and more experience in research and development than we have. Furthermore, the life sciences and pharmaceutical companies, which are our potential customers and strategic partners, could develop competing products. If we are unable to develop enhancements to our technology and rapidly deploy new product offerings, our business, financial condition and results of operations will suffer.

We have generated only moderate amounts of revenue from product and service offerings to date. We expect to continue to incur net losses and we may not achieve or maintain profitability.

We have incurred net losses since our inception and expect to continue to incur net losses at least through early 2005. At January 2, 2005 our accumulated deficit was approximately $123.7 million, and we incurred a net loss of $6.2 million for the year ended January 2, 2005. The magnitude of our net losses will depend, in part, on the rate of growth, if any, of our revenue and on the level of our expenses. We expect to continue incurring significant expenses for research and development, for developing our manufacturing capabilities and for sales and marketing efforts to commercialize our products. In addition, we expect that our selling and marketing expenses will increase at a higher rate in the future as a result of the launch of new products. As a result, we expect that our operating expenses will increase significantly as we grow and, consequently, we will need to generate significant additional revenue to achieve profitability. Even if we achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis.

We have a limited history of commercial sales of systems and consumable products, and our success depends on our ability to develop commercially successful products and on market acceptance of our new and relatively unproven technologies.

We may not possess all of the resources, capability and intellectual property necessary to develop and commercialize all the products or services that may result from our technologies. Sales of our genotyping and gene expression systems only began in 2003, and some of our other technologies are in the early stages of commercialization or are still in development. You should evaluate us in light of the uncertainties and complexities affecting similarly situated companies developing tools for the life sciences and pharmaceutical industries. We must conduct a substantial amount of additional research and development before some of our products will be ready for sale and we currently have fewer resources available for research and development activities than many of our competitors. We may not be able to develop or launch new products in a timely manner, or at all, or they may not meet customer requirements or be of sufficient quality or price that enables us to compete effectively in the marketplace. Problems frequently encountered in connection with the development or early commercialization of products and services using new and relatively unproven technologies might limit our ability to develop and successfully commercialize these products and services. In addition, we may need to enter into agreements to obtain intellectual property necessary to commercialize some of our products or services.

Historically, life sciences and pharmaceutical companies have analyzed genetic variation and function using a variety of technologies. In order to be successful, our products must meet the commercial requirements of the life sciences and pharmaceutical industries as tools for the large-scale analysis of genetic variation and function.

Market acceptance will depend on many factors, including:

- our ability to demonstrate to potential customers the benefits and cost effectiveness of our products and services relative to others available in the market;
- the extent and effectiveness of our efforts to market, sell and distribute our products;
- our ability to manufacture products in sufficient quantities with acceptable quality and reliability and at an acceptable cost; and
- the willingness and ability of customers to adopt new technologies requiring capital investments.

Any inability to adequately protect our proprietary technologies could harm our competitive position.

Our success will depend in part on our ability to obtain patents and maintain adequate protection of our intellectual property in the United States and other countries. If we do not protect our intellectual property adequately, competitors may be able to use our technologies and thereby erode our competitive advantage. The laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and many companies have encountered significant problems in protecting their proprietary rights abroad. These problems can be caused by the absence of rules and methods for defending intellectual property rights.

The patent positions of companies developing tools for the life sciences and pharmaceutical industries, including our patent position, generally are uncertain and involve complex legal and factual questions. We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. We will apply for patents covering our technologies and products, as we deem appropriate. However, our patent applications may be challenged and may not result in issued patents. Our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. There also is risk that others may independently develop similar or alternative technologies or design around our patented technologies. Also, our patents may fail to provide us with any competitive advantage. We may need to initiate additional lawsuits to protect or enforce our patents, or litigate against third party claims, which would be expensive and, if we lose, may cause us to lose some of our intellectual property rights and reduce our ability to compete in the marketplace.

We also rely upon trade secret protection for our confidential and proprietary information. We have taken security measures to protect our proprietary information. These measures, however, may not provide adequate protection for our trade secrets or other proprietary information. We seek to protect our proprietary information by entering into confidentiality agreements with employees, collaborators and consultants. Nevertheless, employees, collaborators or consultants may still disclose our proprietary information, and we may not be able to meaningfully protect our trade secrets. In addition, others may independently develop substantially equivalent proprietary information or techniques or otherwise gain access to our trade secrets.

We have limited experience in manufacturing commercial products.

We have limited experience manufacturing our products in the volumes that will be necessary for us to achieve significant commercial sales. We have only recently begun manufacturing products on a commercial-scale and, in the past, we have experienced variations in manufacturing conditions that have temporarily reduced production yields. Due to the intricate nature of manufacturing products that contain DNA, we may encounter similar or previously unknown manufacturing difficulties in the future that could significantly reduce production yields, impact our ability to launch or sell these products, or to produce them economically, may prevent us from achieving expected performance levels or cause us to set prices that hinder wide adoption by customers.

Our sales, marketing and technical support organization may limit our ability to sell our products.

We currently have fewer resources available for sales and marketing and technical support services as compared to our primary competitors and have only recently established a small direct sales force and customer support team. In order to effectively commercialize our genotyping and gene expression systems and other products to follow, we will need to expand our sales, marketing and technical support staff both domestically and internationally. We may not be successful in establishing or maintaining either a direct sales force or distribution arrangements to market our products and services. In addition, we compete primarily with much larger companies, that have larger sales and distribution staffs and a significant installed base of products in place, and the efforts from a limited sales and marketing force may not be sufficient to build the market acceptance of our products required to support continued growth of our business.

If we are unable to develop and maintain operation of our manufacturing capability, we may not be able to launch or support our products in a timely manner, or at all.

We currently possess only one facility capable of manufacturing our products and services for both sale to our customers and internal use. If a natural disaster were to significantly damage our facility or if other events were to cause our operations to fail, these events could prevent us from developing and manufacturing our products and services.

If we are unable to find third-party manufacturers to manufacture components of our products, we may not be able to launch or support our products in a timely manner, or at all.

The nature of our products requires customized components that currently are available from a limited number of sources. For example, we currently obtain the fiber optic bundles and BeadChip slides included in our products from single vendors. If we are unable to secure a sufficient supply of those or other product components, we will be unable to meet demand for our products. We may need to enter into contractual relationships with manufacturers for commercial-scale production of some of our products, or develop these capabilities internally, and we cannot assure you that we will be able to do this on a timely basis, for sufficient quantities or on commercially reasonable terms. Accordingly, we may not be able to establish or maintain reliable, high-volume manufacturing at commercially reasonable costs.

We may encounter difficulties in managing our growth. These difficulties could increase our losses.

We expect to experience rapid and substantial growth in order to achieve our operating plans, which will place a strain on our human and capital resources. If we are unable to manage this growth effectively, our losses could increase. Our ability to manage our operations and growth effectively requires us to continue to expend funds to enhance our operational, financial and management controls, reporting systems and procedures and to attract and retain sufficient numbers of talented employees. If we are unable to scale up and implement improvements to our manufacturing process and control systems in an efficient or timely manner, or if we encounter deficiencies in existing systems and controls, then we will not be able to make available the products required to successfully commercialize our technology. Failure to attract and retain sufficient numbers of talented employees will further strain our human resources and could impede our growth.

We may need additional capital in the future. If additional capital is not available on acceptable terms, we may have to curtail or cease operations.

Our future capital requirements will be substantial and will depend on many factors including our ability to successfully market our genetic analysis systems and services, the need for capital expenditures to support and expand our business, the progress and scope of our research and development projects, the filing, prosecution and enforcement of patent claims, the outcome of our legal proceedings with Affymetrix and the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings. We anticipate that our existing capital resources will enable us to maintain currently planned operations for at least 24 months. However, we premise this expectation on our current operating plan, which may change as a result of many factors. Consequently, we may need additional funding within this timeframe. Our inability to raise capital would seriously harm our business and product development efforts. In addition, we may choose to raise additional capital due to market conditions or strategic considerations, such as an acquisition, even if we believe we have sufficient funds for our current or future operating plans. To the extent that additional capital is raised through the sale of equity, the issuance of these securities could result in dilution to our stockholders.

We currently have no credit facility or committed sources of capital available as of January 2, 2005. To the extent operating and capital resources are insufficient to meet future requirements; we will have to raise additional funds to continue the development and commercialization of our technologies. These funds may not be available on favorable terms, or at all. If adequate funds are not available on attractive terms, we may be required to curtail operations significantly or to obtain funds by entering into financing, supply or collaboration agreements on unattractive terms.

If we lose our key personnel or are unable to attract and retain additional personnel, we may be unable to achieve our goals.

We are highly dependent on our management and scientific personnel, including Jay Flatley, our president and chief executive officer, David Barker, our vice president and chief scientific officer, and John Stuelpnagel, our senior vice president and chief operating officer. The loss of their services could adversely impact our ability to achieve our business objectives. In addition, Timothy Kish, our chief financial officer, has informed us of his intention to resign in the second quarter of 2005. Mr. Kish continues in his role as chief financial officer, and we are currently conducting a search for his successor. We will need to hire additional qualified personnel with expertise in molecular biology, chemistry, biological information processing, sales, marketing and technical support. We compete for qualified management and scientific personnel with other life science companies, universities and research institutions, particularly those focusing on genomics. Competition for these individuals, particularly in the San Diego area, is intense, and the turnover rate can be high. Failure to attract and retain management and scientific personnel would prevent us from pursuing collaborations or developing our products or technologies.

Our planned activities will require additional expertise in specific industries and areas applicable to the products developed through our technologies, including the life sciences and healthcare industries. Thus, we will need to add new personnel, including management, and develop the expertise of existing management. The failure to do so could impair the growth of our business.

We may encounter difficulties in integrating future acquisitions and that could adversely affect our business.

We have recently signed a definitive agreement to acquire CyVera Corporation and may in the future acquire technology, products or businesses related to our current or future business. Our acquisition of CyVera is expected to close in March 2005; however, the closing is subject to satisfaction of customary closing conditions, and we cannot assure you this transaction will close in this timeframe or at all. We have limited experience in acquisition activities and may have to devote substantial time and resources in order to complete acquisitions. Further, these potential acquisitions entail risks, uncertainties and potential disruptions to our business. For example, we may not be able to successfully integrate a company's operations, technologies, products and services, information systems and personnel into our business. An acquisition may further strain our existing financial and managerial controls, and divert management's attention away from our other business concerns. In connection with the CyVera acquisition, we will assume certain liabilities and hire certain employees of CyVera, which is expected to result in an increase in research and development expenses. There may also be unanticipated costs and liabilities associated with an acquisition that could adversely affect our operating results.

A significant portion of our sales are to international customers.

Approximately 52% of our revenues for the year ended January 2, 2005 were derived from customers outside the United States. We intend to continue to expand our international presence and export sales to international customers and we expect the total amount of non-U.S. sales to continue to grow. Export sales entail a variety of risks, including:

- currency exchange fluctuations;
- unexpected changes in legislative or regulatory requirements of foreign countries into which we import our products;
- difficulties in obtaining export licenses or other trade barriers and restrictions resulting in delivery delays; and
- significant taxes or other burdens of complying with a variety of foreign laws.

In addition, sales to international customers typically result in longer payment cycles and greater difficulty in accounts receivable collection. We are also subject to general geopolitical risks, such as political, social and economic instability and changes in diplomatic and trade relations. One or more of these factors could have a material adverse effect on our business, financial condition and operating results.

Our success depends upon the increasing availability of genetic information and the continued emergence and growth of markets for analysis of genetic variation and function.

We design our products primarily for applications in the life sciences and pharmaceutical industries. The usefulness of our technology depends in part upon the availability of genetic data and its usefulness in identifying or treating disease. We are initially focusing on markets for analysis of genetic variation and function, namely SNP genotyping and gene expression profiling. Both of these markets are new and emerging, and they may not develop as quickly as we anticipate, or reach their full potential. Other methods of analysis of genetic variation and function may emerge and displace the methods we are developing. Also, researchers may not seek or be able to convert raw genetic data into medically valuable information through the analysis of genetic variation and function. If useful genetic data is not available or if our target markets do not develop in a timely manner, demand for our products may grow at a slower rate than we expect, and we may not be able to achieve or sustain profitability.

We expect that our results of operations will fluctuate. This fluctuation could cause our stock price to decline.

Our revenues are subject to fluctuations due to the timing of sales of high-value products and services projects, the impact of seasonal spending patterns, the timing and amount of government grant funding programs, the timing and size of research projects our customers perform, changes in overall spending levels in the life sciences industry and other unpredictable factors that may affect customer ordering patterns. Given the difficulty in predicting the timing and magnitude of sales for our products and services, we may experience quarter-to-quarter fluctuations in revenue resulting in the potential for a sequential decline in quarterly revenue. A large portion of our expenses are relatively fixed, including expenses for facilities, equipment and personnel. In addition, we expect operating expenses to continue to increase significantly. Accordingly, if revenue does not grow as anticipated, we may not be able to reduce our operating losses. Approximately 30% of our revenues for the year 2004 resulted from transactions that were funded under the International HapMap Project. We currently expect that most of the activities under this grant involving the Company and its customers will be completed in early 2005. Although we expect that the loss of revenues resulting from the completion of the HapMap grant may be offset by the planned commercial launch of our whole genome genotyping and gene expression arrays, combined with the continued expansion of our existing product lines, any significant delays in the commercial launch of these products, unfavorable sales trends in our existing product lines, or impacts from the other factors mentioned above, could adversely affect our revenue growth in 2005 or cause a sequential decline in quarterly revenues. Due to the possibility of fluctuations in our revenue and expenses, we believe that quarterly comparisons of our operating results are not a good indication of our future performance. If our operating results fluctuate or do not meet the expectations of stock market analysts and investors, our stock price probably would decline.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

Interest Rate Sensitivity

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. The fair market value of fixed rate securities may be adversely impacted by fluctuations in interest rates while income earned on floating rate securities may decline as a result of decreases in interest rates. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities. We have historically maintained a relatively short average maturity for our investment portfolio, and a hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of our interest sensitive financial instruments.

Foreign Currency Exchange Risk

Although most of our revenue is realized in U.S. dollars, some portions of our revenue are realized in foreign currencies. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. The functional currencies of our subsidiaries are their respective local currencies. Accordingly, the accounts of these operations are translated from the local currency to the U.S. dollar using the current exchange rate in effect at the balance sheet date for the balance sheet accounts, and using the average exchange rate during the period for revenue and expense accounts. The effects of translation are recorded in accumulated other comprehensive income as a separate component of stockholders equity.

Exchange gains and losses arising from transactions denominated in foreign currencies are recorded in operations. In July 2004, we began hedging significant foreign currency firm sales commitments and accounts receivable with forward contracts. We only use derivative financial instruments to reduce foreign currency exchange rate risks; we do not hold any derivative financial instruments for trading or speculative purposes. Our forward exchange contracts have been designated as cash flow hedges and accordingly, to the extent effective, any unrealized gains or losses on these foreign currency forward contracts are reported in other comprehensive income. Realized gains and losses for the effective portion are recognized with the underlying hedge transaction. The notional settlement amount of the foreign currency forward contracts outstanding at January 2, 2005 was approximately $4.0 million. These contracts had a fair value of approximately $0.2 million, representing an unrealized loss, and were included in other current liabilities at January 2, 2005. As of January 2, 2005, all contracts were set to expire at various times through July 29, 2005 and are with reputable bank institutions. For the year ended January 2, 2005, there were no amounts recognized in earnings due to hedge ineffectiveness and we settled foreign exchange contracts of approximately $0.3 million. We have hedged all significant firm commitments denominated in foreign currencies, and as a result, any increase or decrease in the exchange rates of these commitments would have no net effect to our balance sheet or our results of operations.

Item 8. ***Financial Statements and Supplementary Data.***

The Report of Independent Registered Public Accounting Firm, Financial Statements and Notes to Financial Statements begin on page F-1 immediately following the signature page and are incorporated herein by reference.

Our fiscal year is 52 or 53 weeks ending on the Sunday closest to December 31, with quarters of 13 or 14 weeks ending on the Sunday closest to March 31, June 30 and September 30. The years ended January 2, 2005 and December 28, 2003 are 53 and 52 weeks, respectively.

Item 9. ***Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.***

None.

Item 9A. ***Controls and Procedures.***

We have established and maintain disclosure controls and procedures to ensure that we record, process, summarize, and report information we are required to disclose in our periodic reports filed with the Securities and Exchange Commission in the manner and within the time periods specified in the SEC's rules and forms. We also design our disclosure controls to ensure that the information is accumulated and communicated to our management, including the chief executive officer and the chief financial officer, as appropriate to allow timely decisions regarding required disclosure. We also maintain internal controls and procedures to ensure that we comply with applicable laws and our established financial policies. We design our internal controls to provide reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported in conformity with accounting principles generally accepted in the United States.

Exhibit 218

illumina

ANNUAL REPORT

Item 6. ***Selected Financial Data.***

The following selected historical consolidated financial data has been derived from our audited consolidated financial statements. The balance sheet data as of January 1, 2006 and January 2, 2005 and statement of operations data for each of the three years in the period ended January 1, 2006 are derived from audited consolidated financial statements included in this Annual Report on Form 10-K. The balance sheet data as of December 28, 2003, December 29, 2002, and December 30, 2001 and statement of operations data for each of the two years in the period ended December 29, 2002 are derived from our audited consolidated financial statements that are not included in this Annual Report on Form 10-K. The Company's fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended January 1, 2006 and January 2, 2005 were 52 and 53 weeks, respectively. You should read this table in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 8, "Financial Statements and Supplementary Data."

Statement of Operations Data

	Year Ended January 1, 2006	Year Ended January 2, 2005	Year Ended December 28, 2003	Year Ended December 29, 2002	Year Ended December 30, 2001
	(In thousands, except per share data)				
Revenue:					
Product revenue	$ 57,752	$40,497	$ 18,378	$ 4,103	$ 897
Service and other revenue	13,935	8,075	6,496	3,305	99
Research revenue	1,814	2,011	3,161	2,632	1,490
Total revenue	73,501	50,583	28,035	10,040	2,486
Costs and expenses:					
Cost of product revenue	19,920	11,572	7,437	1,815	489
Cost of service and other revenue	3,261	1,687	2,600	1,721	68
Research and development	27,725	21,114	22,511	26,848	20,735
Selling, general and administrative	27,972	25,080	18,899	9,099	5,663
Acquired in-process research and development	15,800	—	—	—	—
Amortization of deferred compensation and other stock-based compensation charges	270	844	2,454	4,360	5,850
Litigation judgment (settlement), net	—	(4,201)	756	8,052	—
Total costs and expenses	94,948	56,096	54,657	51,895	32,805
Loss from operations	(21,447)	(5,513)	(26,622)	(41,855)	(30,319)
Interest income	1,404	941	1,821	3,805	6,198
Interest and other expense	(831)	(1,653)	(2,262)	(2,281)	(702)
Net loss	$(20,874)	$ (6,225)	$(27,063)	$(40,331)	$(24,823)
Net loss per share, basic and diluted	$ (0.52)	$ (0.17)	$ (0.85)	$ (1.31)	$ (0.83)
Shares used in calculating net loss per share, basic and diluted	40,147	35,845	31,925	30,890	29,748

See Note 1 to the consolidated financial statements for an explanation of the determination of the number of shares used to compute basic and diluted net loss per share.

Balance Sheet Data

	January 1, 2006	January 2, 2005	December 28, 2003	December 29, 2002	December 30, 2001
			(In thousands)		
Cash, cash equivalents and current restricted cash and investments	$ 50,822	$ 66,994	$ 32,882	$ 66,294	$ 93,786
Working capital	57,992	64,643	32,229	58,522	91,452
Total assets	100,610	94,907	99,234	121,906	122,465
Long-term debt obligations	54	—	24,999	25,620	590
Accumulated deficit	(144,586)	(123,712)	(117,487)	(90,424)	(50,093)
Total stockholders' equity	72,497	72,262	47,388	71,744	106,791

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operation.*

The following discussion and analysis should be read with "Item 6. Selected Financial Data" and our consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. The discussion and analysis in this Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. Words such as "anticipate", "believe," "continue," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project" or similar words or phrases, or the negatives of these words, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward looking. Examples of forward-looking statements include, among others, statements regarding the integration of CyVera's technology with our existing technology, the commercial launch of new products, including products based on CyVera's technology, and the duration which our existing cash and other resources is expected to fund our operating activities. Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward looking statements. Factors that could cause or contribute to these differences include those discussed in "Item 1A. Risk Factors" as well as those discussed elsewhere. The risk factors and other cautionary statements made in this Annual Report on Form 10-K should be read as applying to all related forward-looking statements wherever they appear in this Annual Report on Form 10-K.

Overview

We were incorporated in April 1998. We develop and market next-generation tools for the large-scale analysis of genetic variation and function. Understanding genetic variation and function is critical to the development of personalized medicine, a key goal of genomics. Using our technologies, we have developed a comprehensive line of products that are designed to provide the performance, throughput, cost effectiveness and flexibility necessary to enable researchers in the life sciences and pharmaceutical industries to perform the billions of tests necessary to extract medically valuable information from advances in genomics. This information is expected to correlate genetic variation and gene function with particular disease states, enhancing drug discovery, allowing diseases to be detected earlier and more specifically, and permitting better choices of drugs for individual patients.

In 2001, we began commercial sale of short pieces of DNA called oligonucleotides, which we refer to as oligos, manufactured using our proprietary Oligator technology. We believe our Oligator technology is more cost effective than competing technologies, and this advantage enabled us to market our oligos under a price leadership strategy while still achieving attractive gross margins.

In 2001, we commercialized the first implementation of our BeadArray technology, the Sentrix Array Matrix. This is a disposable matrix with 96 fiber optic bundles arranged in a pattern that matches the standard 96-well microtiter plate. Each fiber optic bundle performs more than 1,500 unique assays, which enables researchers to perform focused genotyping experiments in a high-throughput format. This format was also used to initiate our single nucleotide polymorphism ("SNP") genotyping services product line. As a result of the increasing market acceptance of our high throughput, low cost BeadArray technology, we have entered into genotyping services contracts with many leading genotyping centers, and were awarded $9.1 million from the National Institutes of Health to play a major role in the first phase of the International HapMap Project.

Our production-scale BeadLab is a turnkey platform that includes all hardware and software necessary to enable researchers to perform genetic analysis research on what we believe is an unprecedented scale. This system is being marketed to a small number of high-throughput genotyping users. As of January 1, 2006, we have installed and recorded revenue for 11 BeadLabs.

In 2003, we announced the launch of several new products, including 1) a new array format, the Sentrix BeadChip, which significantly expands market opportunities for our BeadArray technology and provides increased experimental flexibility for life science researchers; 2) a gene expression product line on both the Sentrix Array Matrix and the Sentrix BeadChip that allows researchers to analyze a focused set of genes across eight to 96 samples on a single array; and 3) a benchtop SNP genotyping and gene expression system, the BeadStation, for performing moderate-scale genotyping and gene expression using our technology. The BeadStation includes our BeadArray Reader, analysis software and assay reagents and is designed to match the throughput requirements and variable automation needs of individual research groups and core labs. Sales of these products began in the first quarter of 2004 and, as of January 1, 2006, we have shipped 115 BeadStations.

In late 2004, we announced a strategic collaboration with Invitrogen Corporation ("Invitrogen") to synthesize and distribute oligos. In the third quarter of 2005, we began shipping oligo products in connection with this agreement. As part of the agreement, we have developed the next generation of our Oligator DNA synthesis technology, which we have designed to support both plate- and tube-based capabilities. Invitrogen is responsible for sales, marketing and technical support. Profits from sales of collaboration products are divided equally between the two companies.

In 2005, we began shipments of Sentrix BeadChips for whole-genome gene expression and whole-genome genotyping. The whole-genome gene expression BeadChips are designed to enable high-performance, cost-effective, whole-genome expression profiling of multiple samples on a single chip, resulting in a dramatic reduction in cost of whole-genome expression analysis. Our whole-genome expression product line includes multi-sample products for both the Human and Mouse Genomes. The whole-genome genotyping BeadChip is designed to scale to high levels of multiplexing without compromising data quality and to provide scientists the ability to query hundreds of thousands of SNPs in parallel. In the second quarter of 2005, we commenced shipment of our first whole-genome genotyping BeadChip, the HumanHap1, which interrogates more than 100,000 SNPs in parallel.

In April 2005, we completed the acquisition of CyVera Corporation, a privately-held Connecticut-based company, pursuant to which CyVera became a wholly-owned subsidiary of Illumina. We believe that CyVera's digital-microbead platform will be highly complementary to our portfolio of products and services. The acquisition is expected to provide us with a comprehensive approach to bead-based assays for biomarker research and development and in-vitro and molecular diagnostic opportunities, including those that require low-complexity as well as high-complexity testing. We expect the first products based on CyVera's technology to be available in the second half of 2006. The purchase price associated with the transaction was approximately $17.8 million. We allocated $15.8 million of this purchase price to acquired in-process research and development and charged such amount against earnings in the second quarter of 2005.

In January 2006, we began shipment of the new Sentrix HumanHap300 Genotyping BeadChip to customers around the world. Using the Infinium assay, which enables us to select virtually any SNP in the genome, the HumanHap300 BeadChip offers genomic coverage for more than 317,000 SNPs. We selected the SNP assays in collaboration with a consortium of scientists that are leaders in the genotyping field. We believe this product has quality and performance features that support our expectation that it will become an important discovery tool for researchers seeking to understand the genetic basis of common, yet complex diseases.

Our revenue is subject to fluctuations due to the timing of sales of high-value products and service projects, the impact of seasonal spending patterns, the timing and size of research projects our customers perform, changes in overall spending levels in the life science industry, the timing and amount of government grant funding programs and other unpredictable factors that may affect our customer ordering patterns. Any significant delays in the commercial launch or any lack or delay of commercial acceptance of new products, unfavorable sales trends in our existing product lines, or impacts from the other factors mentioned above, could adversely affect our revenue growth in 2006 or cause a sequential decline in quarterly revenues. Due to the possibility of fluctuations in our revenue and net income or loss, we believe quarterly comparisons of our operating results are not a good indication of our future performance.

We have incurred substantial operating losses since our inception. As of January 1, 2006, our accumulated deficit was $144.6 million, and total stockholders' equity was $72.5 million. These losses have principally occurred as a result of the substantial resources required for the research, development and manufacturing scale up effort required to commercialize our products and services, an acquired in-process research and development charge of $15.8 million related to our acquisition of CyVera and a charge of $5.9 million related to a termination-of-employment lawsuit. We expect to continue to incur substantial costs for research, development and manufacturing scale up activities over the next several years. We will also need to significantly increase our selling, general and administrative costs as we build up our sales and marketing infrastructure to expand and support the sale of systems, other products and services. As a result of the expected increase in expenses, we will need to increase revenue significantly to achieve sustained profitability.

Critical Accounting Policies and Estimates

General

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of financial statements requires that management make estimates, assumptions and judgments with respect to the application of accounting policies that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

Our significant accounting policies are described in Note 1 to our consolidated financial statements. Certain accounting policies are deemed critical if 1) they require an accounting estimate to be made based on assumptions that were highly uncertain at the time the estimate was made, and 2) changes in the estimate that are reasonably likely to occur, or different estimates that we reasonably could have used would have a material effect on our consolidated financial statements.

Management has discussed the development and selection of these critical accounting policies with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed the disclosure. In addition, there are other items within our financial statements that require estimation, but are not deemed critical as defined above.

We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of the consolidated financial statements.

Revenue Recognition

Our revenue is generated primarily from the sale of products and services. Product revenue consists of sales of arrays, reagents, instrumentation, and oligos. Service and other revenue consists of revenue received for performing genotyping services, extended warranty sales and revenue earned from milestone payments. As described below, significant judgments and estimates must be made and used in connection with the revenue recognized in any accounting period.

We recognize revenue in accordance with the guidelines established by SEC Staff Accounting Bulletin ("SAB") No. 104. Under SAB No. 104, revenue cannot be recorded until all of the following criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller's price to the buyer is fixed or determinable; and collectibility is reasonably assured.

Revenue for product sales is recognized generally upon shipment and transfer of title to the customer, provided no significant obligations remain and collection of the receivables is reasonably assured. Revenue from the sale of instrumentation is recognized when earned, which is generally upon shipment. However, in the case of BeadLabs, revenue is recognized upon the completion of installation, training and the receipt of customer acceptance. Revenue for genotyping services is recognized when earned, which is generally at the time the genotyping analysis data is delivered to the customer or as specific milestones are achieved.

In order to assess whether the price is fixed and determinable, we ensure there are no refund rights. If payment terms are based on future performance, we defer revenue recognition until the price becomes fixed and determinable. We assess collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If we determine that collection of a payment is not reasonably assured, we defer revenue recognition until the time collection becomes reasonably assured, which is generally upon receipt of payment. Changes in judgments and estimates made in determining whether the criteria of SAB No. 104 have been met might result in a change in the timing or amount of revenue recognized.

Sales of instrumentation generally include a standard one-year warranty. We also sell separately priced maintenance (extended warranty) contracts, which are generally for one or two years, upon the expiration of the initial warranty. Revenue for extended warranty sales is recognized ratably over the term of the extended warranty period. Reserves are provided for estimated product warranty expenses at the time the associated revenue is recognized. If we were to experience an increase in warranty claims or if costs of servicing our warrantied products were greater than our estimates, our gross margins could be adversely affected.

While the majority of our sales agreements contain standard terms and conditions, we do enter into agreements that contain multiple elements or non-standard terms and conditions. Emerging Issues Task Force ("EITF") No. 00-21, *Revenue Arrangements with Multiple Deliverables*, provides guidance on accounting for arrangements that involve the delivery or performance of multiple products, services, or rights to use assets within contractually binding arrangements. Significant contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, how the price should be allocated among the deliverable elements, when to recognize revenue for each element, and the period over which revenue should be recognized. We recognize revenue for delivered elements only when we determine that the fair values of undelivered elements are known and there are no uncertainties regarding customer acceptance.

Some of our agreements contain multiple elements that include milestone payments. Revenue from a milestone achievement is recognized when earned, as evidenced by acknowledgement from our collaborator, provided that (i) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement, (ii) the milestone represents the culmination of an earnings process, (iii) the milestone payment is non-refundable and (iv) the performance obligations for both us and our collaborators after the milestone achievement will continue at a level comparable to the level before the milestone achievement. If all of these criteria are not met, the milestone achievement is recognized over the remaining minimum period of our performance obligations under the agreement. We defer non-refundable upfront fees received under our collaborations and recognize them over the period the related services are provided or over the estimated collaboration term using various factors specific to the collaboration. Advance payments we receive in excess of amounts earned are classified as deferred revenue until earned.

A third source of revenue, research revenue, consists of amounts earned under research agreements with government grants, which is recognized in the period during which the related costs are incurred. All revenue is recorded net of any applicable allowances for returns or discounts.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We evaluate the collectibility of our accounts receivable based on a combination of factors. We regularly analyze customer accounts, review the length of time receivables are outstanding and review historical loss rates. If the financial condition of our customers were to deteriorate, additional allowances could be required.

Inventory Valuation

We record adjustments to inventory for potentially excess, obsolete or impaired goods in order to state inventory at net realizable value. We must make assumptions about future demand, market conditions and the release of new products that will supercede old ones. We regularly review inventory for excess and obsolete products and components, taking into account product life cycle and development plans, product expiration and quality issues, historical experience and our current inventory levels. If actual market conditions are less favorable than anticipated, additional inventory adjustments could be required.

Contingencies

We are subject to legal proceedings primarily related to intellectual property matters. Based on the information available at the balance sheet dates and through consultation with our legal counsel, we assess the likelihood of any adverse judgments or outcomes of these matters, as well as the potential ranges of probable losses. If losses are probable and reasonably estimable, we will record a liability in accordance with Statement of Financial Accounting Standards ("SFAS") No. 5, *Accounting for Contingencies*. Currently, we have no such liabilities recorded. This may change in the future depending upon new developments in each matter.

Goodwill and Intangible Asset Valuation

The purchase method of accounting for acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair value of the net tangible and intangible assets acquired, including in-process research and development ("IPR&D"). Goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to annual impairment tests. The amounts and useful lives assigned to other acquired intangible assets impact future amortization, and the amount assigned to IPR&D is expensed immediately. Determining the fair values and useful lives of intangible assets especially requires the exercise of judgment. While there are a number of different acceptable generally accepted valuation methods to estimate the value of intangible assets acquired, we primarily use the discounted cash flow method. This method requires significant management judgment to forecast the future operating results used in the analysis. In addition, other significant estimates are required such as residual growth rates and discount factors. The estimates we use to value and amortize intangible assets are consistent with the plans and estimates that we use to manage our business and are based on available historical information and industry estimates and averages. These judgments can significantly affect our net operating results.

During 2001, we adopted SFAS No. 142. SFAS No. 142 requires that goodwill and certain intangible assets be assessed for impairment using fair value measurement techniques. If the carrying amount of a reporting unit exceeds its fair value, then a goodwill impairment test is performed to measure the amount of the impairment loss, if any. The goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as in a business combination. Determining the fair value of the implied goodwill is judgmental in nature and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. Estimates of fair value are primarily determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions, including projection and timing of future cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, determination of appropriate market comparables, and determination of whether a premium or discount should be applied to comparables. It is reasonably possible that the plans and estimates used to value these assets may be incorrect. If our actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges. As of January 1, 2006, we had $2.1 million of goodwill. This goodwill is reported as a separate line item in the balance sheet for fiscal 2005.

Recently Issued Accounting Standards

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004), *Share Based Payment* ("SFAS 123R"), which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation.* This statement supercedes Accounting Principles Bulletin ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees,* and amends SFAS No. 95, *Statement of Cash Flows.* Generally, the approach in SFAS No. 123R is similar to the approach described in SFAS No. 123; however, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

SFAS No. 123R permits companies to adopt its requirements using either a "modified prospective" method or a "modified retrospective" method. Under the "modified prospective" method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS No. 123R for all share-based payments granted after that date, and based on the requirements for SFAS No. 123 for all unvested awards granted prior to the effective date of SFAS No. 123R. Under the "modified retrospective" method, the requirements are the same as under the "modified prospective" method, but companies may restate financial statements of previous periods based on pro forma disclosures made in accordance with SFAS No. 123. We currently utilize the Black-Scholes model to measure the fair value of stock options granted to employees under the pro forma disclosure requirements of SFAS No. 123. While SFAS No. 123R permits companies to continue to use such model, it also permits the use of a "lattice" model. We have deterimined we will use the Black-Scholes model to measure the fair value of employee stock options under SFAS No. 123R. The new standard is effective for companies that are not small business issuers, like us, beginning with the first reporting period during the first fiscal year beginning on or after June 15, 2005, and we adopted SFAS No. 123R at the beginning of our new reporting period on January 2, 2006.

We currently account for share-based payments to employees using APB No. 25's intrinsic value method and, as such, recognize no compensation cost for employee stock options granted with exercise prices equal to or greater than the fair value of our common stock on the date of the grant. Accordingly, the adoption of SFAS No. 123R's fair value method is expected to result in significant non-cash charges which will increase our reported operating expenses. However, it will have no impact on our cash flows. The precise impact of adoption of SFAS No. 123R cannot be predicted at this time because it will depend on the level of share-based payments granted in the future. However, had we adopted SFAS No. 123R in prior periods, we believe the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net loss in the notes to our consolidated financial statements.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs.* We are required to adopt the provisions of SFAS No. 151, on a prospective basis, as of January 2, 2006. SFAS No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. SFAS No. 151 requires that those items — if abnormal — be recognized as expenses in the period incurred. In addition, SFAS No. 151 requires the allocation of fixed production overheads to the costs of conversions based upon the normal capacity of the production facilities. We do not believe that the adoption of SFAS No. 151 will have a material impact on our financial position or results of operations.

Results of Operations

To enhance comparability, the following table sets forth audited consolidated statement of operations data for the years ended January 1, 2006, January 2, 2005, and December 28, 2003 stated as a percentage of total revenue.

	Year Ended January 1, 2006	Year Ended January 2, 2005	Year Ended December 28, 2003
Revenue			
Product revenue	79%	80%	66%
Service and other revenue	19	16	23
Research revenue	2	4	11
Total revenue	100	100	100
Costs and expenses:			
Cost of product revenue	27	23	27
Cost of service and other revenue	4	3	9
Research and development	38	41	80
Selling, general and administrative	38	50	67
Acquired in-process research and development	22	—	—
Amortization of deferred compensation and other stock-based compensation charges	—	2	9
Litigation judgment (settlement), net	—	(8)	3
Total costs and expenses	129	111	195
Loss from operations	(29)	(11)	(95)
Interest income	2	2	6
Interest and other expense	(1)	(3)	(8)
Net loss	(28%)	(12%)	(97%)

Comparison of Years Ended January 1, 2006 and January 2, 2005

Our fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended January 1, 2006 and January 2, 2005 were 52 and 53 weeks, respectively.

Revenue

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(in thousands)		
Product revenue	$57,752	$40,497	43%
Service and other revenue	13,935	8,075	73
Research revenue	1,814	2,011	(10)
Total revenue	$73,501	$50,583	45%

Total revenue for the years ended January 1, 2006 and January 2, 2005 was $73.5 million and $50.6 million, respectively. This represents an increase of $22.9 million for 2005, or 45%, as compared to 2004.

Product revenue increased to $57.8 million for the year ended January 1, 2006 from $40.5 million for the year ended January 2, 2005. The increase in 2005 was primarily due to higher BeadStation, consumable and, to a lesser extent, oligo sales. Growth in consumable sales was due to the launch of several new products, as well as the growth in our installed base of BeadStations. As of January 1, 2006, we have shipped a total of 115 BeadStations and 11 BeadLabs.

Service and other revenue increased to $13.9 million in 2005 from $8.1 million in 2004. The increase in service and other revenue is primarily due to higher demand for third-party SNP genotyping service contracts during the 2005 period. In addition, due to the achievement of a milestone associated with our collaboration agreement with Invitrogen, we recognized revenue of $1.1 million in the fourth quarter of 2005. These increases were partially offset by decreased revenue related to the International HapMap Project. We completed all revenue-generating genotyping services for the International HapMap project early in the first quarter of 2005. We expect sales from third-party SNP genotyping services contracts to fluctuate on a yearly and quarterly basis, depending on the mix and number of contracts that are completed. The timing of completion of a SNP genotyping services contract is highly dependent on the customer's schedule for delivering the SNPs and samples to us.

Government grants and other research funding decreased to $1.8 million for the year ended January 1, 2006 from $2.0 million for the year ended January 2, 2005, due primarily to a decrease in internal research spending for our grants from the National Institutes of Health. We expect revenue from government grants to decline in the future as we continue to expand our focus on commercial operations.

Cost of Product and Service and Other Revenue

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Cost of product revenue	$19,920	$11,572	72%
Cost of service and other revenue	3,261	1,687	93
Total cost of product and service and other revenue	$23,181	$13,259	75%

Cost of product and service and other revenue represents manufacturing costs incurred in the production process, including component materials, assembly labor and overhead, installation, warranty, packaging and delivery costs, as well as costs associated with performing genotyping services on behalf of our customers. Costs related to research revenue are included in research and development expense. Cost of product and service and other revenue increased to $23.2 million for the year ended January 1, 2006, as compared to $13.3 million for the year ended January 2, 2005 due primarily to the significant increase in product revenue. Gross margin on product and service and other revenue was 68% for 2005, as compared to 73% for 2004.

Cost of product revenue increased to $19.9 million for the year ended January 1, 2006, as compared to $11.6 million for the year ended January 2, 2005, due to the significant increase in product revenue. Gross margin on product revenue decreased to 66% for the year ended January 1, 2006, as compared to 71% for the year ended January 2, 2005. The decrease in gross margin percentage is primarily due to the impact of product mix. A higher percentage of our revenue in 2005 was generated from the sale of instrumentation, which generally has a lower gross margin than other products. Other factors contributing to the decrease include decreased gross margins related to our consumable and oligo sales. Lower consumable margins can be primarily attributed to lower average selling prices on consumable sales in 2005, as compared to 2004, which were partially offset by decreased manufacturing costs. In addition, the gross margin associated with oligo products sold as a part of the Invitrogen collaboration was lower when compared to the prior year. The change in oligo gross margin is due to the fact that, under the Invitrogen collaboration, we no longer sell oligos directly. As a result, the gross margin related to this product line decreased; however, the net margin has increased due to the fact that most of the sales and marketing expenses surrounding the oligo business have shifted to our collaboration partner, Invitrogen.

Cost of service and other revenue increased to $3.3 million for the year ended January 1, 2006, as compared to $1.7 million for the year ended January 2, 2005. Gross margin on service and other revenue decreased to 77% for the year ended January 1, 2006 from 79% in the year ended January 2, 2005. The decrease is due primarily to a change in the mix of projects and decreased average selling prices.

We expect product mix to continue to affect our future gross margins. However, we expect our market to become increasingly price competitive and our margins may fluctuate.

Research and Development Expenses

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Research and development	$27,725	$21,114	31%

Our research and development expenses consist primarily of salaries and other personnel-related expenses, laboratory supplies and other expenses related to the design, development, testing and enhancement of our products. We expense our research and development expenses as they are incurred.

Research and development expenses increased to $27.7 million for the year ended January 1, 2006, as compared to $21.1 million for the year ended January 2, 2005. The increase in research and development expenses is primarily due to the development expenses incurred to develop our newly-acquired Microbead technology purchased in conjunction with our acquisition of CyVera in April 2005. Research and development expenses related to the Microbead technology totaled approximately $3.2 million in 2005. Additional factors contributing to the increased research and development expenses during 2005 relate to increased costs of $2.1 million associated with the cost of BeadArray research activities and $1.3 million related to research costs to support our Oligator technology platform. We believe a substantial investment in research and development is essential to remaining competitive and expanding into additional markets. Accordingly, we expect our research and development expenses to increase as we expand our product base.

Stock based compensation related to research and development employees and consultants was approximately $0.1 million for the year ended January 1, 2006, as compared to $0.3 million for the year ended January 2, 2005.

Selling, General and Administrative Expenses

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Selling, general and administrative	$27,972	$25,080	12%

Our selling, general and administrative expenses consist primarily of personnel costs for sales and marketing, finance, human resources, business development, legal and general management, as well as professional fees, such as expenses for legal and accounting services.

Selling, general and administrative expenses increased to $28.0 million for the year ended January 1, 2006, as compared to $25.1 million for the year ended January 2, 2005. Our sales and marketing expenses increased $3.6 million, of which $2.7 million was attributable to personnel related expenses for the build-out of our sales force and customer support staff, and $0.9 million is attributable to other non-personnel-related costs, including sales and marketing activities for our existing and new products. General and administrative expenses decreased by $0.7 million in 2005, as compared to 2004, due primarily to a $2.5 million decrease in litigation expenses, partially offset by a $1.5 million increase in personnel-related expenses.

We expect our selling, general and administrative expenses to accelerate as we expand our staff, add sales and marketing infrastructure and incur increased litigation costs and additional costs to support the commercialization and support of an increasing number of products.

Stock based compensation for selling, general and administrative employees, directors and consultants was $0.2 million for the year ended January 1, 2006, as compared to $0.5 million for the year ended January 2, 2005. During 2005, we recorded non-cash compensation expense for accelerated vesting of options for certain employees totaling approximately $0.1 million. This compensation was provided as incentive to continue to work as key members of the sales team associated with the Invitrogen collaboration.

Acquired In-Process Research and Development

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Acquired in-process research and development	$15,800	$—	N/A

During the year ended January 1, 2006, we recorded $15.8 million of acquired IPR&D resulting from the CyVera acquisition. These amounts were expensed on the acquisition dates because the acquired technology had not yet reached technological feasibility and had no alternative future uses. At the acquisition date, CyVera's ongoing research and development initiatives were primarily the development of its microbead technology platform and optical instrumentation/reader concepts. The IPR&D charge related to the CyVera acquisition was made up of two projects that were approximately 50% and 25% complete at the date of acquisition. The discount rate applied to calculate the IPR&D charge was 30%. Acquisitions of businesses, products or technologies by us in the future may result in substantial charges for acquired IPR&D that may cause fluctuations in our interim or annual operating results. There were no charges resulting from any acquisitions during the same period in 2004.

Amortization of Deferred Compensation and Other Stock-Based Compensation Charges

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Amortization of deferred compensation and other stock-based compensation charges	$270	$844	(68%)

Since our inception, in connection with the grant of certain stock options and sales of restricted stock to employees, founders and directors through July 25, 2000, we have recorded deferred stock compensation totaling approximately $17.6 million, representing the difference between the exercise or purchase price and the fair value of our common stock as estimated by our management for financial reporting purposes on the date such stock options were granted or restricted common stock was sold. Deferred compensation is included as a reduction of stockholders' equity and is being amortized over the vesting period of the options and restricted stock. In 2005, we recorded $0.2 million as deferred compensation related to unvested options associated with our acquisition of CyVera. In addition, in 2005, we granted a restricted stock award to an employee and recorded deferred stock compensation totaling $0.2 million. During the years ended January 1, 2006 and January 2, 2005, we recorded amortization of deferred stock compensation of approximately $0.3 million and $0.8 million, respectively.

We recognize compensation expense over the vesting period for employees, founders and directors, using an accelerated amortization methodology in accordance with FASB Interpretation No. 28. For consultants, deferred compensation is recorded at the fair value for the options granted or stock sold in accordance with SFAS No. 123 and is periodically re-measured and expensed in accordance with EITF No. 96-18.

In 2005, we recorded approximately $48,000 as deferred compensation expense related to our acquisition of CyVera. We also recorded non-cash compensation expense related to accelerated vesting of options for certain employees totaling approximately $0.1 million. This compensation was provided to these employees as incentive to continue to work as key members of the sales team associated with the Invitrogen collaboration. In addition, in 2005 we granted a restricted stock award to an employee and recorded a non-cash compensation charge of $21,000. We expect expenses related to stock-based compensation to increase significantly beginning in 2006 as we implement the requirements of SFAS No. 123R. Although the adoption of SFAS No. 123R's fair value method is expected to result in a significant increase in our reported operating expenses, it will have no impact on our cash flows. SFAS No. 123R is discussed further in "Recently Issued Accounting Standards" in Item 7 and in Note 1 to our consolidated financial statements.

Litigation Judgment (Settlement), net

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Litigation judgment (settlement), net	$—	$(4,201)	(100%)

We recorded a $7.7 million charge in June 2002 to cover total damages and estimated expenses related to a jury verdict in a termination-of-employment lawsuit. We appealed the decision, and in December 2004, the Fourth Appellate District Court of Appeal, in San Diego, California, reduced the amount of the award. During the appeal process, the court required us to incur interest charges on the judgment amount at statutory rates until the case was resolved. During the years ended January 2, 2005 and December 28, 2003, we recorded $0.6 million and $0.8 million, respectively, of such interest charges as litigation expense. As a result of the revised judgment, we reduced the $9.2 million liability on our balance sheet to $5.9 million and recorded a gain of $3.3 million as a litigation judgment in the fourth quarter of 2004. In addition, in August 2004, we recorded a $1.5 million gain as a result of a settlement with Applera.

Interest Income

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Interest income	$1,404	$941	49%

Interest income on our cash and cash equivalents and investments was $1.4 million and $0.9 million for the years ended January 1, 2006 and January 2, 2005, respectively. The increase was due to higher average cash balances and higher effective interest rates compared to the prior year.

Interest and Other Expense

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Interest and other expense	$831	$1,653	(50%)

Interest and other expense consists of interest expense, expenses related to foreign exchange transaction costs, foreign income taxes and gains and losses on disposals of assets. Interest and other expense decreased to $0.8 million for the year ended January 1, 2006, as compared to $1.7 million for the year ended January 2, 2005.

Interest expense was $7,000 for the year ended January 1, 2006, as compared to $1.4 million for the year ended January 2, 2005. Interest expense in the 2004 period relates primarily to a $26.0 million fixed rate loan that was paid off in August 2004 in connection with the sale of our San Diego facilities.

In the year ended January 1, 2006, we recorded approximately $0.4 million in losses due to foreign currency transactions compared to $0.2 million in foreign currency transaction losses for the year ended January 2, 2005. Estimated foreign income taxes were approximately $0.2 million and $0.1 million for the years ended January 1, 2006 and January 2, 2005, respectively. In addition in 2005, we recorded $0.3 million related to losses on disposal of assets. There were no gains or losses on disposals in 2004.

Provision for Income Taxes

We incurred net operating losses for the years ended January 1, 2006 and January 2, 2005 and, accordingly, we did not pay any U.S. federal or state income taxes. We have recorded a valuation allowance for the full amount of the resulting net deferred tax asset, as the future realization of the tax benefit is uncertain. As of January 1, 2006, we had net operating loss carryforwards for federal and California tax purposes of approximately $103.7 million and $40.1 million, respectively, which begin to expire in 2018 and 2006, respectively, unless previously utilized.

As of January 1, 2006, we also had U.S. federal and California research and development tax credit carryforwards of approximately $4.1 million and $3.8 million, respectively. The federal tax credit carryforwards will begin to expire in 2018 and the California carryforwards have no expiration.

Our utilization of the net operating losses and credits may be subject to substantial annual limitations pursuant to Section 382 and 383 of the Internal Revenue Code, and similar state provisions, as a result of changes in our ownership structure. CyVera Corporation had an ownership change upon our acquisition during 2005 and, accordingly, its net operating loss and tax credit carryforwards are subject to annual limitation. These annual limitations may result in the expiration of net operating losses and credits prior to utilization. We are in the final stages of completing our formal Section 382 and 383 analysis and it is anticipated that approximately $0.2 million of our net operating loss carryforwards may be limited.

Comparison of Years Ended January 2, 2005 and December 28, 2003

Our fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended January 2, 2005 and December 28, 2003 were 53 and 52 weeks, respectively.

Revenue

	Year Ended January 2, 2005	Year Ended December 28, 2003	Percentage Change
	(In thousands)		
Product revenue	$40,497	$18,378	120%
Service revenue	8,075	6,496	24
Research revenue	2,011	3,161	(36)
Total revenue	$50,583	$28,035	80%

Revenue for the years ended January 2, 2005 and December 28, 2003 was $50.6 million and $28.0 million, respectively. Product revenue increased to $40.5 million in 2004 from $18.4 million in 2003. The increase resulted almost entirely from sales of consumables used on our BeadLabs and BeadStations and sales of our benchtop BeadStations, offset by fewer sales of our production-scale BeadLabs. In 2003, we had no sales of BeadStations and we only began selling consumable products in May 2003.

Service revenue increased to $8.1 million for the year ended January 2, 2005 from $6.5 million in for the year ended December 28, 2003. Substantially all of this increase relates to SNP genotyping services performed for the International HapMap Project. We are the recipient of a grant from the National Institutes of Health covering our participation in the first phase of the International HapMap Project, which is a $100 million internationally funded successor project to the Human Genome Project that will help identify a map of genetic variations that may be used to perform disease related research. We received $9.1 million of funding for this project which covered basic research activities, the development of SNP assays and the genotyping to be performed on those assays. We had recognized revenue from this grant of $8.3 million through the end of 2004. The remaining $0.8 million of funding remaining related to this project was received and recognized as revenue in early 2005.

Government grants and other research funding decreased to $2.0 million for the year ended January 2, 2005 from $3.2 million for the year ended December 28, 2003, primarily due to a decrease in internal research spending for our grant from the National Institutes of Health covering our participation in the International HapMap Project.

Cost of Product and Service Revenue

	Year Ended January 2, 2005	Year Ended December 28, 2003	Percentage Change
	(In thousands)		
Cost of product revenue	$11,572	$ 7,437	56%
Cost of service revenue	1,687	2,600	(35%)
Total cost of product and service revenue	$13,259	$10,037	32%

Cost of product and service revenue represents manufacturing costs incurred in the production process, including component materials, assembly labor and overhead, installation, warranty, packaging and delivery costs, as well as costs associated with performing genotyping services on behalf of our customers. Costs related to research revenue are included in research and development expense.

Cost of product revenue increased to $11.6 million for the year ended January 2, 2005 from $7.4 million for the year ended December 28, 2003. Substantially all of this increase was driven by the sales of our BeadStations and consumables. Gross margin on product revenue increased to 71% in the year ended January 2, 2005, from 60% for the year ended December 28, 2003, due primarily to increased sales of higher margin consumable products, as well as efficiencies gained in oligo manufacturing.

Cost of service revenue decreased to $1.7 million for the year ended January 2, 2005 from $2.6 million for the year ended December 28, 2003. Gross margin on service revenue increased to 79% in the year ended January 2, 2005, from 60% for the year ended December 28, 2003. This decrease in cost and increase in gross margin is due primarily to efficiencies gained in SNP genotyping services, as well as lower costs of oligos used in the genotyping services process.

Research and Development Expenses

	Year Ended January 2, 2005	Year Ended December 28, 2003	Percentage Change
	(In thousands)		
Research and development	$21,114	$22,511	(6%)

Our research and development expenses consist primarily of salaries and other personnel-related expenses, laboratory supplies and other expenses related to the design, development, testing and enhancement of our products. We expense our research and development expenses as they are incurred. Research and development expenses decreased $1.4 million to $21.1 million for the year ended January 2, 2005 from $22.5 million for the year ended December 28, 2003. Approximately $0.9 million of the decrease is attributable to personnel-related expenses and related lab supplies and the majority of the remaining $0.5 million is attributable to lower manufacturing-related resources needed to support research efforts and a decrease in depreciation expense.

During the year ended January 2, 2005, the cost of BeadArray technology research activities decreased $0.4 million, as compared to the year ended December 28, 2003. The decrease is primarily the result of completing the development of several products that were commercially launched in late 2003 and 2004 such as our BeadStation and focused gene set array products.

Research to support our Oligator technology platform decreased $1.0 million in the year ended January 2, 2005, as compared to the year ended December 28, 2003. In the second quarter of 2003, we implemented additional Oligator manufacturing and software enhancements to expand capacity, increase throughput, and further reduce operating costs. In addition, as we increase our product sales, a smaller portion of our manufacturing resources are now used to support research efforts as compared to the same periods in 2003.

Stock based compensation related to research and development employees and consultants was $0.3 million for the year ended January 2, 2005, as compared to $1.3 million for the year ended December 28, 2003.

Selling, General and Administrative Expenses

	Year Ended January 2, 2005	Year Ended December 28, 2003	Percentage Change
	(In thousands)		
Selling, general and administrative	$25,080	$18,899	33%

Our selling, general and administrative expenses consist primarily of personnel costs for sales and marketing, finance, human resources, business development and general management, as well as professional fees, such as expenses for legal and accounting services. Selling, general and administrative expenses increased $6.2 million to $25.1 million for the year ended January 2, 2005 from $18.9 million for the year ended December 28, 2003. Approximately $5.2 million of the increase is due to higher sales and marketing costs, of which $4.1 million is attributable to personnel-related expenses and $0.7 million is attributable to an increase in facility-related expenses. Approximately $1.0 million of the increase in selling, general and administrative expenses is related to general and administrative costs, of which $0.4 million is related to personnel-related expenses, and the majority of the remaining $0.6 million is attributable to expenses associated with Sarbanes-Oxley compliance and our international expansion.

Stock based compensation related to selling, general and administrative employees, directors and consultants was $0.5 million for the year ended January 2, 2005, as compared to $1.2 million for the year ended December 28, 2003.

Amortization of Deferred Compensation and Other Stock-Based Compensation Charges

	Year Ended January 2, 2005	Year Ended December 28, 2003	Percentage Change
	(In thousands)		
Amortization of deferred compensation and other stock-based compensation charges	$844	$2,454	(66%)

From our inception through July 27, 2000, in connection with the grant of certain stock options and sales of restricted stock to employees, founders and directors, we have recorded deferred stock compensation totaling $17.6 million, representing the difference between the exercise or purchase price and the fair value of our common stock as estimated for financial reporting purposes on the date such stock options were granted or such restricted stock was sold. We recorded this amount as a component of stockholders' equity and amortize the amount as a charge to operations over the vesting period of the restricted stock and options.

We recorded amortization of deferred compensation of $0.8 million and $2.5 million for the years ended January 2, 2005 and December 28, 2003, respectively. We recognize compensation expense over the vesting period for employees, founders and directors, using an accelerated amortization methodology in accordance with the FIN No. 28. For consultants, deferred compensation is recorded at the fair value for the options granted or stock sold in accordance with SFAS No. 123 and is periodically re-measured and expensed in accordance with EITF No. 96-18.

Litigation Judgment (Settlement), net

	Year Ended January 2, 2005	Year Ended December 28, 2003	Percentage Change
	(In thousands)		
Litigation judgment (settlement), net	$(4,201)	$756	(656%)

We recorded a $7.7 million charge in June 2002 to cover total damages and estimated expenses related to a jury verdict in a termination-of-employment lawsuit. We appealed the decision, and in December 2004, the Fourth Appellate District Court of Appeal, in San Diego, California, reduced the amount of the award. During the appeal process, the court required us to incur interest charges on the judgment amount at statutory rates until the case was resolved. For the years ended January 2, 2005 and December 28, 2003 we recorded $0.6 million and $0.8 million, respectively, of such interest charges as litigation expense. As a result of the revised judgment, we reduced the $9.2 million liability on our balance sheet to $5.9 million and recorded a gain of $3.3 million as a litigation judgment in the fourth quarter of 2004.

In 1999, we entered into a joint development agreement with Applied Biosystems Group, an operating group of Applera Corporation, under which the companies agreed to jointly develop a SNP genotyping system that would combine our BeadArray technology with Applied Biosystems' assay chemistry and scanner technology. In conjunction with the agreement, Applied Biosystems agreed to provide us with non-refundable research and development support of $10.0 million, all of which was paid by December 2001 and recorded as a liability on our balance sheet as of December 28, 2003. In December 2002, Applied Biosystems initiated a patent infringement suit and sought to compel arbitration of an alleged breach of the joint development agreement. We initiated a suit in state court seeking to enjoin the arbitration and alleged that Applied Biosystems had breached the joint development agreement. In August 2004, we entered into a settlement and cross-license agreement with Applera. As a result of the settlement, we removed the $10.0 million liability from our balance sheet, made a payment of $8.5 million to Applera and recorded a gain of $1.5 million as a litigation settlement.

Interest Income

	Year Ended January 2, 2005	Year Ended December 28, 2003	Percentage Change
	(In thousands)		
Interest income	$941	$1,821	(48%)

Interest income on our cash and cash equivalents and investments was $0.9 million and $1.8 million for the years ended January 2, 2005 and December 28, 2003, respectively. The decrease is due to lower effective interest rates, partially offset by higher average cash balances.

Interest and Other Expense

	Year Ended January 2, 2005	Year Ended December 28, 2003	Percentage Change
	(In thousands)		
Interest and other expense	$1,653	$2,262	(27%)

Interest and other expense primarily consisted of interest expense, which was $1.4 million and $2.2 million for the years ended January 2, 2005 and December 28, 2003, respectively. Interest expense relates primarily to a $26.0 million fixed rate loan, which was paid off in August 2004 in connection with the sale of our San Diego facilities.

In the year ended January 2, 2005, we recorded approximately $150,000 in losses due to foreign currency transactions as compared to approximately $5,000 in gains for the year ended December 28, 2003. Estimated foreign income taxes were approximately $135,000 and $45,000 for the years ended January 2, 2005 and December 28, 2003, respectively.

Provision for Income Taxes

We incurred net operating losses for the years ended January 2, 2005 and December 28, 2003, and accordingly, we did not pay any U.S. federal or state income taxes. We have recorded a valuation allowance for the full amount of the resulting net deferred tax asset, as the future realization of the tax benefit is uncertain. As of January 2, 2005, we had net operating loss carryforwards for federal and state tax purposes of approximately $86.5 million and $39.1 million, respectively, which begin to expire in 2018, unless previously utilized.

As of January 2, 2005, we also had U.S. federal and state research and development tax credit carryforwards of approximately $3.1 million and $3.0 million, respectively, which begin to expire in 2018, unless previously utilized.

Liquidity and Capital Resources

Cashflow

	Year Ended January 1, 2006	Year Ended January 2, 2005	Year Ended December 28, 2003
		(In thousands)	
Net cash used in operating activities	$(9,008)	$(19,574)	$(18,256)
Net cash provided by (used in) investing activities	(1,535)	57,022	28,468
Net cash provided by financing activities	5,963	4,875	216
Effect of foreign currency translation	613	1	—
Net increase (decrease) in cash and cash equivalents	$(3,967)	$ 42,324	$ 10,428

As of January 1, 2006, we had cash and cash equivalents of approximately $50.8 million. We currently invest our excess cash balances in U.S. dollar-based, short-term money market mutual funds.

Our operating activities used cash of $9.0 million in the year ended January 1, 2006, as compared to $19.6 million in the year ended January 2, 2005. Net cash used in operating activities in the year ended January 1, 2006 was primarily the result of a net loss from operations of $20.9 million, a $6.0 million payment for a litigation judgment, a $7.0 million increase in accounts receivable and a $6.5 million increase in inventory, reduced by a $7.4 million increase in accounts payable and accrued liabilities, a $3.2 million increase in long-term liabilities primarily related to payments received from Invitrogen recorded as deferred revenue, non-cash charges of $4.1 million for depreciation and amortization and a non-cash acquired IPR&D charge of $15.8 million related to the CyVera acquisition. The accounts receivable and inventory increases over the prior year are primarily due to our significant year-over-year sales growth of 45%, which resulted from increased customer demand and our introduction of new products and services into the market. The increase in accounts payable and accrued liability balances was driven primarily by increases in general business activity associated with such sales growth, as well as expenses associated with the expansion of our corporate infrastructure to accommodate this growth. Net cash used in operating activities in the year ended January 2, 2005 was primarily the result of a net loss from operations of $6.2 million, the payment of an $8.5 million legal settlement, as described under "Litigation Judgment (Settlement), net," a $7.2 million increase in accounts receivable due to increased sales and a $2.0 million increase in other assets primarily for the security deposit for the building lease, reduced by non-cash charges of $4.0 million for depreciation and amortization.

Our investing activities used cash of $1.5 million in the year ended January 1, 2006, as compared to providing cash of $57.0 million in the year ended January 2, 2005. Cash used in investing activities in the year ended January 1, 2006 was due to $11.4 million used for the purchase of property and equipment and $2.4 million paid for the acquisition of CyVera, reduced by $12.2 million from the sale or maturity of investment securities used to provide operating funds for our business. Cash provided by investing activities in the year ended January 2, 2005 was due to $40.7 million in proceeds from the sale of our land and buildings, net of fees, and $19.7 million from the sale or maturity of investment securities, net of purchases of investment securities used to provide operating funds for our business, reduced by $3.4 million for the purchase of property and equipment.

Our financing activities provided $6.0 million in the year ended January 1, 2006, as compared to $4.9 million for the year ended January 2, 2005. Cash provided from financing activities in the year ended January 1, 2006 was due primarily to proceeds from the issuance of common stock from option exercises. Cash provided from financing activities in the year ended January 2, 2005 was due primarily to proceeds from the issuance of common stock, including $28.7 million of net proceeds from the sale of approximately 4.6 million shares of our common stock in May 2004, offset by the $25.4 million in long-term debt we paid off in connection with the sale of our land and buildings.

In June 2002, we recorded a $7.7 million charge to cover total damages and estimated expenses related to a termination-of-employment lawsuit. As a result of our decision to appeal the ruling, we filed a surety bond with the court in October 2002 of 1.5 times the judgment amount, or approximately $11.3 million. Under the terms of the bond, we were required to maintain a letter of credit for 90% of the bond amount to secure the bond. Further, we were required to deposit approximately $12.5 million of marketable securities as collateral for the letter of credit and accordingly, these funds were restricted from use for corporate purposes. A judgment was rendered in December 2004 and a $5.9 million payment was made in early 2005, at which time the restricted funds were released.

We anticipate that our current cash and cash equivalents, revenue from sales and funding from grants will be sufficient to fund our anticipated operating needs, barring unforeseen developments. Operating needs include the planned costs to operate our business including amounts required to fund working capital and capital expenditures. At the present time, we have no material commitments for capital expenditures. However, our future capital requirements and the adequacy of our available funds will depend on many factors, including our ability to successfully commercialize our SNP genotyping and gene expression systems and extensions to those products and to expand our oligos and SNP genotyping services product lines, scientific progress in our research and development programs, the magnitude of those programs, competing technological and market developments, the successful resolution of our legal proceedings with Affymetrix, the success of our collaboration with Invitrogen and the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings. Therefore, we may require additional funding in the future. In addition, we may choose to raise additional capital due to market conditions or strategic considerations, such as an acquisition, even if we believe we have sufficient funds for our current or future operating plans. Further, any additional equity financing may be dilutive to our then existing stockholders and may adversely affect their rights and any debt financing may carry covenants that could restrict our operations.

In December 2003, we filed a shelf registration statement that would allow us to raise up to $65 million of funding through the sale of common stock in one or more transactions. In May 2004, we raised approximately $28.7 million, net of offering expenses, through the sale of our common stock under this shelf registration statement.

Off-Balance Sheet Arrangements and Contractual Obligations

We do not participate in any transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities ("SPEs"), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of January 1, 2006, we were not involved in any SPE transactions.

In January 2002, we purchased two newly constructed buildings and assumed a $26.0 million, 10-year mortgage on the property at a fixed interest rate of 8.36%. In June 2004, we entered into a conditional agreement to sell our land and buildings for $42.0 million and to lease back such property for an initial term of ten years. The sale was completed in August 2004 at which time the lease was signed. After the repayment of the remaining $25.2 million debt and other related transaction expenses, we received $15.5 million in net cash proceeds. We removed the land and net book value of the buildings of $36.9 million from our balance sheet and are recording the resulting $3.7 million gain on the sale of the property over the ten-year lease term in accordance with SFAS No. 13, *Accounting for Leases*. Under the terms of the lease, we made a $1.9 million security deposit, with monthly rental payments of $318,643 for the first year with an annual increase of 3% in each subsequent year through August 2014. The current monthly rent under this lease is $328,202. The lease contains an option to renew for three additional periods of five years each.

We also lease office space for a facility in Connecticut, an additional manufacturing storage facility in San Diego and for three foreign facilities located in Japan, Singapore and China under non-cancelable operating leases that expire at various times through December 2008. These leases contain renewal options ranging from one to three years.

As of January 1, 2006, our contractual obligations are (in thousands):

	Payments Due by Period				
Contractual Obligation	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Operating leases	$39,513	$4,557	$8,708	$8,833	$17,415
Total	$39,513	$4,557	$8,708	$8,833	$17,415

The above table does not include orders for goods and services entered into in the normal course of business that are not enforceable or legally binding.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

Interest Rate Sensitivity

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. The fair market value of fixed rate securities may be adversely impacted by fluctuations in interest rates while income earned on floating rate securities may decline as a result of decreases in interest rates. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We attempt to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities. We have historically maintained a relatively short average maturity for our investment portfolio, and we believe a hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of our interest sensitive financial instruments.

Foreign Currency Exchange Risk

Although most of our revenue is realized in U.S. dollars, some portions of our revenue are realized in foreign currencies. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. The functional currencies of our subsidiaries are their respective local currencies. Accordingly, the accounts of these operations are translated from the local currency to the U.S. dollar using the current exchange rate in effect at the balance sheet date for the balance sheet accounts, and using the average exchange rate during the period for revenue and expense accounts. The effects of translation are recorded in accumulated other comprehensive income as a separate component of stockholders' equity.

Exchange gains and losses arising from transactions denominated in foreign currencies are recorded in operations. In July 2004, we began hedging significant foreign currency firm sales commitments and accounts receivable with forward contracts. We only use derivative financial instruments to reduce foreign currency exchange rate risks; we do not hold any derivative financial instruments for trading or speculative purposes. Our forward exchange contracts have been designated as cash flow hedges and accordingly, to the extent effective, any unrealized gains or losses on these foreign currency forward contracts are reported in other comprehensive income. Realized gains and losses for the effective portion are recognized with the underlying hedge transaction. The notional settlement amount of the foreign currency forward contracts outstanding at January 1, 2006 and January 2, 2005 were $0.1 million and $4.0 million, respectively. As of January 1, 2006, we had one foreign currency forward contract outstanding. This contract had a fair value of $882, representing an unrealized gain, and was included in other current assets at January 1, 2006. This contract is set to expire in March 2006 and is with a reputable bank institution. As of January 2, 2005, the outstanding contracts had a fair value of $0.2 million, representing an unrealized loss, and were included in other current liabilities at January 2, 2005. We settled foreign exchange contracts of $5.2 million and $0.3 million for the years ended January 1, 2006 and January 2, 2005, respectively. Our hedging program reduces, but does not entirely eliminate the impact of currency exchange rate movements. We believe we have hedged all significant firm commitments denominated in foreign currencies, and as a result, any increase or decrease in the exchange rates of these commitments would have no material net effect to our balance sheet or our results of operations. The Company did not hold any derivative financial instruments prior to fiscal 2004.

Item 8. *Financial Statements and Supplementary Data.*

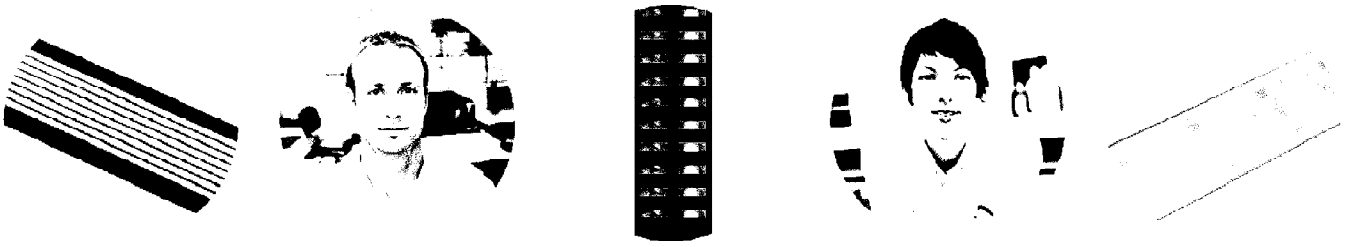
The Report of Independent Registered Public Accounting Firm, Financial Statements and Notes to Financial Statements begin on page F-1 immediately following the signature page and are incorporated herein by reference.

Our fiscal year is 52 or 53 weeks ending on the Sunday closest to December 31, with quarters of 13 or 14 weeks ending on the Sunday closest to March 31, June 30 and September 30. The years ended January 1, 2006 and January 2, 2005 were 52 and 53 weeks, respectively.

Item 9. *Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.*

None.

Exhibit 219



Item 6. *Selected Financial Data.*

The following selected historical consolidated financial data has been derived from our audited consolidated financial statements. The balance sheet data as of December 31, 2006 and January 1, 2006 and statement of operations data for each of the three years in the period ended December 31, 2006 are derived from audited consolidated financial statements included in this Annual Report on Form 10-K. The balance sheet data as of January 2, 2005, December 28, 2003, and December 29, 2002 and statement of operations data for each of the two years in the period ended December 28, 2003 are derived from our audited consolidated financial statements that are not included in this Annual Report on Form 10-K. The Company's fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended December 31, 2006 and January 1, 2006 were both 52 weeks. The year ended January 2, 2005 was 53 weeks. You should read this table in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 8, "Financial Statements and Supplementary Data."

Statement of Operations Data

	Year Ended December 31, 2006	Year Ended January 1, 2006	Year Ended January 2, 2005	Year Ended December 28, 2003	Year Ended December 29, 2002
	(In thousands, except per share data)				
Revenue:					
Product revenue	$155,811	$ 57,752	$40,497	$ 18,378	$ 4,103
Service and other revenue	27,486	13,935	8,075	6,496	3,305
Research revenue	1,289	1,814	2,011	3,161	2,632
Total revenue	184,586	73,501	50,583	28,035	10,040
Costs and expenses:					
Cost of product revenue (including non-cash stock compensation expense of $1,289, $0, $0, $0 and $0, respectively)	51,271	19,920	11,572	7,437	1,815
Cost of service and other revenue (including non-cash stock compensation expense of $235, $0, $0, $0 and $0, respectively)	8,073	3,261	1,687	2,600	1,721
Research and development (including non-cash stock compensation expense of $3,891, $84, $348, $1,289 and $2,399, respectively)	33,373	27,809	21,462	23,800	29,247
Selling, general and administrative (including non-cash stock compensation expense of $8,889, $186, $496, $1,165 and $1,961, respectively)	54,057	28,158	25,576	20,064	11,060
Acquired in-process research and development	—	15,800	—	—	—
Litigation judgment (settlement), net	—	—	(4,201)	756	8,052
Total costs and expenses	146,774	94,948	56,096	54,657	51,895
Income (loss) from operations	37,812	(21,447)	(5,513)	(26,622)	(41,855)
Interest income	5,368	1,404	941	1,821	3,805
Interest and other expense, net	(560)	(668)	(1,518)	(2,262)	(2,281)
Income (loss) before income taxes	42,620	(20,711)	(6,090)	(27,063)	(40,331)
Provision for income taxes	2,652	163	135	—	—
Net income (loss)	$ 39,968	$(20,874)	$ (6,225)	$(27,063)	$(40,331)
Net income (loss) per basic share	$ 0.90	$ (0.52)	$ (0.17)	$ (0.85)	$ (1.31)
Net income (loss) per diluted share	$ 0.82	$ (0.52)	$ (0.17)	$ (0.85)	$ (1.31)
Shares used in calculating basic net income (loss) per share	44,501	40,147	35,845	31,925	30,890
Shares used in calculating diluted net income (loss) per share	48,754	40,147	35,845	31,925	30,890

See Note 1 to the consolidated financial statements for an explanation of the determination of the number of shares used to compute basic and diluted net income (loss) per share.

Balance Sheet Data

	December 31, 2006	January 1, 2006	January 2, 2005	December 28, 2003	December 29, 2002
			(In thousands)		
Cash, cash equivalents and short-term investments	$ 130,804	$ 50,822	$ 66,994	$ 33,882	$ 66,294
Working capital	159,950	57,992	64,643	32,229	58,522
Total assets	300,584	100,610	94,907	99,234	121,906
Long-term debt, less current portion	—	54	—	24,999	25,620
Accumulated deficit	(104,618)	(144,586)	(123,712)	(117,487)	(90,424)
Total stockholders' equity	247,342	72,497	72,262	47,388	71,744

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operation.*

The following discussion and analysis should be read with "Item 6. Selected Financial Data" and our consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. The discussion and analysis in this Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. Words such as "anticipate," "believe," "continue," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project" or similar words or phrases, or the negatives of these words, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward looking. Examples of forward-looking statements include, among others, statements regarding the integration of Solexa's and CyVera's technology with our existing technology, the commercial launch of new products, including products based on Solexa's and CyVera's technology, and the duration which our existing cash and other resources is expected to fund our operating activities.

Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward looking statements. Factors that could cause or contribute to these differences include those discussed in "Item 1A. Risk Factors" as well as those discussed elsewhere. The risk factors and other cautionary statements made in this Annual Report on Form 10-K should be read as applying to all related forward-looking statements wherever they appear in this Annual Report on Form 10-K.

Overview

We are a leading developer, manufacturer and marketer of next-generation life science tools and integrated systems for the large scale analysis of genetic variation and biological function. Using our proprietary technologies, we provide a comprehensive line of products and services that currently serve the sequencing, genotyping and gene expression markets, and we expect to enter the market for molecular diagnostics. Our customers include leading genomic research centers, pharmaceutical companies, academic institutions, clinical research organizations and biotechnology companies. Our tools provide researchers around the world with the performance, throughput, cost effectiveness and flexibility necessary to perform the billions of genetic tests needed to extract valuable medical information from advances in genomics and proteomics. We believe this information will enable researchers to correlate genetic variation and biological function, which will enhance drug discovery and clinical research, allow diseases to be detected earlier and permit better choices of drugs for individual patients.

On January 26, 2007, we completed the acquisition of Solexa for approximately 13.1 million shares of our common stock. Solexa develops and commercializes genetic analysis technologies used to perform a range of analyses including whole genome resequencing, gene expressing analysis and small RNA analysis. We believe our combined company is the only company with genome-scale technology for genotyping, gene expression and sequencing, the three cornerstones of modern genetic analysis.

Our revenue is subject to fluctuations due to the timing of sales of high-value products and service projects, the impact of seasonal spending patterns, the timing and size of research projects our customers perform, changes in overall spending levels in the life science industry and other unpredictable factors that may affect our customer ordering patterns. Any significant delays in the commercial launch or any lack or delay of commercial acceptance of new products, unfavorable sales trends in our existing product lines, or impacts from the other factors mentioned above, could adversely affect our revenue growth or cause a sequential decline in quarterly revenue. Due to the possibility of fluctuations in our revenue and net income or loss, we believe quarterly comparisons of our operating results are not a good indication of our future performance.

Prior to 2006, we incurred substantial operating losses. As of December 31, 2006, our accumulated deficit was $104.6 million and total stockholders' equity was $247.3 million. Losses prior to 2006 have principally occurred as a result of the substantial resources required for the research, development and manufacturing scale-up effort required to commercialize our products and services, an acquired in-process research and development charge of $15.8 million related to our acquisition of CyVera in 2005 and a charge of $5.9 million in 2004 related to a termination-of-employment lawsuit. We expect to continue to incur substantial costs for research, development and manufacturing scale-up activities over the next several years. We will also need to increase our selling, general and administrative costs as we build up our sales and marketing infrastructure to expand and support the sale of systems, other products and services.

Critical Accounting Policies and Estimates

General

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of financial statements requires that management make estimates, assumptions and judgments with respect to the application of accounting policies that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

Our significant accounting policies are described in Note 1 to our consolidated financial statements. Certain accounting policies are deemed critical if 1) they require an accounting estimate to be made based on assumptions that were highly uncertain at the time the estimate was made, and 2) changes in the estimate that are reasonably likely to occur, or different estimates that we reasonably could have used would have a material effect on our consolidated financial statements.

Management has discussed the development and selection of these critical accounting policies with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed the disclosure. In addition, there are other items within our financial statements that require estimation, but are not deemed critical as defined above.

We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of the consolidated financial statements.

Revenue Recognition

Our revenue is generated primarily from the sale of products and services. Product revenue consists of sales of arrays, reagents, instrumentation and oligos. Service and other revenue consists of revenue received for performing genotyping services, extended warranty sales and revenue earned from milestone payments.

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the customer is fixed or determinable and collectibility is reasonably assured. In instances where final acceptance of the product or system is required, revenue is deferred until all the acceptance criteria have been met. All revenue is recorded net of any applicable allowances for returns or discounts.

Revenue for product sales is recognized generally upon shipment and transfer of title to the customer, provided no significant obligations remain and collection of the receivables is reasonably assured. Revenue from the sale of instrumentation is recognized when earned, which is generally upon shipment. However, in the case of BeadLabs, revenue is recognized upon the completion of installation, training and customer acceptance. Revenue for genotyping services is recognized when earned, which is generally at the time the genotyping analysis data is delivered to the customer or as specific milestones are achieved.

In order to assess whether the price is fixed and determinable, we ensure there are no refund rights. If payment terms are based on future performance or a right of return exists, we defer revenue recognition until the price becomes fixed and determinable. We assess collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If we determine that collection of a payment is not reasonably assured, revenue recognition is deferred until the time collection becomes reasonably assured, which is generally upon receipt of payment.

Sales of instrumentation generally include a standard one-year warranty. We also sell separately priced maintenance (extended warranty) contracts, which are generally for one or two years, upon the expiration of the initial warranty. Revenue for extended warranty sales is recognized ratably over the term of the extended warranty period. Reserves are provided for estimated product warranty expenses at the time the associated revenue is recognized. If we were to experience an increase in warranty claims or if costs of servicing our warrantied products were greater than our estimates, gross margins could be adversely affected.

While the majority of our sales agreements contain standard terms and conditions, we do enter into agreements that contain multiple elements or non-standard terms and conditions. Emerging Issues Task Force (EITF) No. 00-21, *Revenue Arrangements with Multiple Deliverables,* provides guidance on accounting for arrangements that involve the delivery or performance of multiple products, services, or rights to use assets within contractually binding arrangements. Significant contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, how the price should be allocated among the deliverable elements, when to recognize revenue for each element, and the period over which revenue should be recognized. We recognize revenue for delivered elements only when we determine that the fair values of undelivered elements are known and there are no uncertainties regarding customer acceptance.

Some of our agreements contain multiple elements that include milestone payments. Revenue from a milestone achievement is recognized when earned, as evidenced by acknowledgement from our collaborator, provided that (i) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement, (ii) the milestone represents the culmination of an earnings process, (iii) the milestone payment is non-refundable and (iv) the performance obligations for both us and our collaborators after the milestone achievement will continue at a level comparable to the level before the milestone achievement. If all of these criteria are not met, the milestone achievement is recognized over the remaining minimum period of our performance obligations under the agreement. We defer non-refundable upfront fees received under our collaborations and recognize them over the period the related services are provided or over the estimated collaboration term using various factors specific to the collaboration. Advance payments received in excess of amounts earned are classified as deferred revenue until earned.

Research revenue consists of amounts earned under research agreements with government grants, which is recognized in the period during which the related costs are incurred.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We evaluate the collectibility of our accounts receivable based on a combination of factors. We regularly analyze customer accounts, review the length of time receivables are outstanding and review historical loss rates. If the financial condition of our customers were to deteriorate, additional allowances could be required.

Inventory Valuation

We record adjustments to inventory for potentially excess, obsolete or impaired goods in order to state inventory at net realizable value. We must make assumptions about future demand, market conditions and the release of new products that will supercede old ones. We regularly review inventory for excess and obsolete products and components, taking into account product life cycle and development plans, product expiration and quality issues, historical experience and our current inventory levels. If actual market conditions are less favorable than anticipated, additional inventory adjustments could be required.

Contingencies

We are subject to legal proceedings primarily related to intellectual property matters. Based on the information available at the balance sheet dates and through consultation with our legal counsel, we assess the likelihood of any adverse judgments or outcomes of these matters, as well as the potential ranges of probable losses. If losses are probable and reasonably estimable, we will record a liability in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*. Currently, we have no such liabilities recorded. This may change in the future depending upon new developments.

Income Taxes

In accordance with SFAS No. 109, *Accounting for Income Taxes*, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and credit carryforwards. Deferred tax assets and liabilities are determined using the enacted tax rates in effect for the years in which those tax assets are expected to be realized. A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction by jurisdiction basis, and includes a review of all available positive and negative evidence.

Due to the adoption of SFAS No. 123 (revised 2004), Share-Based Payment, we recognize excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, we follow the with-and-without approach excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to us.

Goodwill and Intangible Asset Valuation

The purchase method of accounting for acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair value of the net tangible and intangible assets acquired, including in-process research and development (IPR&D). Goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to at least annual impairment tests. The amounts and useful lives assigned to other acquired intangible assets impact future amortization, and the amount assigned to IPR&D is expensed immediately. Determining the fair values and useful lives of intangible assets especially requires the exercise of judgment. While there are a number of different acceptable generally accepted valuation methods to estimate the value of intangible assets acquired, we primarily use the discounted cash flow method. This method requires significant management judgment to forecast the future operating results used in the analysis. In addition, other significant estimates are required such as residual growth rates and discount factors. The estimates we use to value and amortize intangible assets are consistent with the plans and estimates that we use to manage our business and are based on available historical information and industry estimates and averages. These judgments can significantly affect our net operating results.

SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 requires that goodwill and certain intangible assets be assessed for impairment using fair value measurement techniques. If the carrying amount of a reporting unit exceeds its fair value, then a goodwill impairment test is performed to measure the amount of the impairment loss, if any. The goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as in a business combination. Determining the fair value of the implied goodwill is judgmental in nature and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. Estimates of fair value are primarily determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions, including projection and timing of future cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, determination of appropriate market comparables, and determination of whether a premium or discount should be applied to comparables. It is reasonably possible that the plans and estimates used to value these assets may be incorrect. If our actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges. As of December 31, 2006, we had $2.1 million of goodwill. This goodwill is reported as a separate line item in the balance sheet. We have performed our annual test of goodwill as of May 1, 2006 and have determined there has been no impairment of goodwill as of December 31, 2006.

Stock-Based Compensation

We account for stock-based compensation in accordance with SFAS No. 123R, *Share-Based Payment*. Under the provisions of SFAS No. 123R, stock-based compensation cost is estimated at the grant date based on the award's fair-value as calculated by the Black-Scholes-Merton (BSM) option-pricing model and is recognized as expense over the requisite service period. The BSM model requires various highly judgmental assumptions including volatility, forfeiture rates, and expected option life. If any of these assumptions used in the BSM model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

Results of Operations

To enhance comparability, the following table sets forth audited consolidated statement of operations data for the years ended December 31, 2006, January 1, 2006, and January 2, 2005 stated as a percentage of total revenue.

	Year Ended December 31, 2006	Year Ended January 1, 2006	Year Ended January 2 2005
Revenue			
Product revenue	84%	79%	80%
Service and other revenue	15	19	16
Research revenue	1	2	4
Total revenue	100	100	100
Costs and expenses:			
Cost of product revenue	28	27	23
Cost of service and other revenue	5	4	3
Research and development	18	38	42
Selling, general and administrative	29	38	51
Acquired in-process research and development	—	22	—
Litigation judgment (settlement), net	—	—	(8)
Total costs and expenses	80	129	111
Income (loss) from operations	20	(29)	(11)
Interest income	3	2	2
Interest and other expense, net	—	(1)	(3)
Income (loss) before income taxes	23	(28)	(12)
Provision for income taxes	1	—	—
Net income (loss)	22%	(28%)	(12%)

Comparison of Years Ended December 31, 2006 and January 1, 2006

Our fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended December 31, 2006 and January 1, 2006 were both 52 weeks.

Revenue

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Product revenue	$155,811	$57,752	170%
Service and other revenue	27,486	13,935	97
Research revenue	1,289	1,814	(29)
Total revenue	$184,586	$73,501	151%

Total revenue for the years ended December 31, 2006 and January 1, 2006 was $184.6 million and $73.5 million, respectively. This represents an increase of $111.1 million for 2006, or 151%, compared to 2005.

Product revenue increased to $155.8 million for the year ended December 31, 2006 from $57.8 million for the year ended January 1, 2006. The increase in 2006 resulted primarily from higher consumable and BeadStation sales. Growth in consumable revenue was primarily attributable to the launch and shipment of our whole genome genotyping products, the HumanHap300 and HumanHap550 BeadChips. In addition, growth in consumable revenue can be attributed to the growth in our installed base of BeadArray Readers, which has nearly doubled since January 1, 2006. Consumable products constituted 66% of product revenue for year ended December 31, 2006, compared to 47% in the year ended January 1, 2006. We expect to see continued growth in product revenue, which can be partially attributed to the launch of several new products, as well as the growth of our installed base of instruments.

Service and other revenue increased to $27.5 million for the year ended December 31, 2006 from $13.9 million for the year ended January 1, 2006. The increase in service and other revenue is primarily due to the completion of several significant Infinium and GoldenGate SNP genotyping service contracts. We introduced our Infinium services in early 2006. We expect sales from SNP genotyping services contracts to fluctuate on a yearly and quarterly basis, depending on the mix and number of contracts that are completed. The timing of completion of a SNP genotyping services contract is highly dependent on the customer's schedule for delivering the SNPs and samples to us.

Government grants and other research funding decreased to $1.3 million for the year ended December 31, 2006 from $1.8 million for the year ended January 1, 2006, due primarily to the completion of several projects funded by grants from the National Institutes of Health. We do not expect research revenue to be a material component of our revenue going forward.

Cost of Product and Service and Other Revenue

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Cost of product revenue	$51,271	$19,920	157%
Cost of service and other revenue	8,073	3,261	148
Total cost of product and service and other revenue	$59,344	$23,181	156%

Cost of product and service and other revenue represents manufacturing costs incurred in the production process, including component materials, assembly labor and overhead, installation, warranty, packaging and delivery costs, as well as costs associated with performing genotyping services on behalf of our customers. Costs related to research revenue are included in research and development expense. Cost of product revenue increased to $51.3 million for the year ended December 31, 2006, compared to $19.9 million for the year ended January 1, 2006, primarily driven by higher consumable and instrument sales. Cost of product revenue for the year ended December 31, 2006 included stock-based compensation expenses resulting from the adoption of SFAS No. 123R totaling $1.3 million. Gross margin on product revenue increased to 67.1% for the year ended December 31, 2006, compared to 65.5% for the year ended January 1, 2006. The increase in gross margin percentage is primarily due to the impact of favorable product mix, as well as decreased manufacturing costs. A higher percentage of our revenue in 2006 was generated from the sale of consumables, which generally have a more favorable gross margin than other products. The decrease in manufacturing costs is primarily due to reduced raw material costs as a result of more favorable negotiated contracts with our vendors and improvements in our manufacturing processes. This increase in gross margin was offset, in part, by the impact of stock-based compensation charges, which decreased our gross margin by 83 basis points in 2006 compared to 2005.

Cost of service and other revenue increased to $8.1 million for the year ended December 31, 2006, compared to $3.3 million for the year ended January 1, 2006, primarily due to higher service revenue. Cost of service and other revenue for the year ended December 31, 2006 included stock-based

compensation expenses resulting from the adoption of SFAS No. 123R totaling $0.2 million. Gross margin on service and other revenue decreased to 70.6% for the year ended December 31, 2006, compared to 76.6% for the year ended January 1, 2006. The decrease is due primarily to a change in the mix of projects, as well as the impact of stock-based compensation charges, the latter having decreased our service and other revenue gross margin by 85 basis points in 2006 compared to 2005.

We expect product mix to continue to affect our future gross margins. However, we expect our market to become increasingly price competitive and our margins may fluctuate from year to year and quarter to quarter.

Research and Development Expenses

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Research and development	$33,373	$27,809	20%

Our research and development expenses consist primarily of salaries and other personnel-related expenses, laboratory supplies and other expenses related to the design, development, testing and enhancement of our products. We expense our research and development expenses as they are incurred.

Research and development expenses increased to $33.4 million for the year ended December 31, 2006, compared to $27.8 million for the year ended January 1, 2006. Research and development expenses for the years ended December 31, 2006 and January 1, 2006 included stock-based compensation expenses primarily resulting from the adoption of SFAS No. 123R totaling $3.9 million and $0.1 million, respectively. Exclusive of these stock-based compensation charges, the increase in research and development expenses for the year ended December 31, 2006 is primarily due to the development of our recently-acquired VeraCode technology purchased in conjunction with our acquisition of CyVera in April 2005. The Company plans to launch its first products resulting from this acquisition during the first quarter of 2007. Research and development expenses related to the VeraCode technology increased $2.7 million for the year ended December 31, 2006, compared to the year ended January 1, 2006. In addition, costs to support our Oligator technology platform and BeadArray research activities decreased $1.0 million for the year ended December 31, 2006, compared to the year ended January 1, 2006.

We believe a substantial investment in research and development is essential to remaining competitive and expanding into additional markets. Accordingly, we expect our research and development expenses to increase in absolute dollars as we expand our product base and integrate the operations of Solexa into our business.

Selling, General and Administrative Expenses

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Selling, general and administrative	$54,057	$28,158	92%

Our selling, general and administrative expenses consist primarily of personnel costs for sales and marketing, finance, human resources, business development, legal and general management, as well as professional fees, such as expenses for legal and accounting services. Selling, general and administrative expenses increased to $54.1 million for the year ended December 31, 2006, compared to $28.2 million for the year ended January 1, 2006. Selling, general and administrative expenses for the years ended December 31, 2006 and January 1, 2006 included stock-based compensation expenses primarily resulting from the adoption of SFAS No. 123R totaling $8.9 million and $0.2 million, respectively.

Sales and marketing expenses increased $10.6 million during the year ended December 31, 2006, compared to the year ended January 1, 2006. The increase is primarily due to increases of $6.5 million attributable to personnel-related expenses, $3.2 million of stock-based compensation expense and

$0.9 million attributable to other non-personnel-related costs, mainly sales and marketing activities for our existing and new products. General and administrative expenses increased $15.3 million during the year ended December 31, 2006, compared to the year ended January 1, 2006, due to increases of $5.5 million of stock-based compensation expense, $5.3 million in outside legal costs related to the Affymetrix litigation, $3.1 million in personnel-related expenses associated with the growth of our business and $1.4 million in outside consulting costs. Outside consulting costs primarily include tax and audit fees and general legal expenses not associated with the Affymetrix litigation.

We expect our selling, general and administrative expenses to increase in absolute dollars as we expand our staff, add sales and marketing infrastructure, incur increased litigation costs and incur additional costs to support the growth in our business.

Interest Income

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Interest income	$5,368	$1,404	282%

Interest income on our cash and cash equivalents and investments was $5.4 million and $1.4 million for the years ended December 31, 2006 and January 1, 2006, respectively. The increase was due to higher average cash balances and higher effective interest rates compared to the prior year.

Interest and Other Expense, Net

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Interest and other expense, net	$(560)	$(668)	(16%)

Interest and other expense, net, consists of interest expense, other income and expenses related to foreign exchange transaction costs and gains and losses on disposals of assets. Interest and other expense, net, decreased to $0.6 million for the year ended January 1, 2006, compared to $0.7 million for the year ended January 2, 2005.

Interest expense was $11,000 for the year ended December 31, 2006, compared to $7,000 for the year ended January 1, 2006. For the years ended December 31, 2006 and January 1, 2006, we recorded approximately $0.4 million in losses due to foreign currency transactions. In addition in 2006, we recorded $0.1 million related to losses on disposal of assets, compared to $0.3 million of losses in 2005.

Provision for Income Taxes

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Provision for income taxes	$2,652	$163	1,527%

The provision for income taxes was approximately $2.7 million in 2006, up from $0.2 million in 2005. In 2006, the provision principally consists of federal and state alternative minimum tax and income tax expense related to foreign operations. In 2005, the provision for income taxes consisted of income tax expense related to foreign operations.

During the year ended December 31, 2006, we utilized approximately $25.9 million and $16.6 million of our federal and state net operating loss carryforwards, respectively, to reduce our federal and state income taxes. As of December 31, 2006, we had net operating loss carryforwards for federal and state tax purposes of approximately $76.4 million and $39.1 million, respectively; which begin to expire in 2022 and 2013, respectively, unless previously utilized. In addition, we also had U.S. federal and state research and development tax credit carryforwards of approximately $6.4 million and $6.3 million respectively; which begin to expire in 2018 and 2019 respectively, unless previously utilized.

Pursuant to Section 382 and 383 of the Internal Revenue Code, utilization of our net operating losses and credits may be subject to annual limitations in the event of any significant future changes in our ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization. Previous limitations due to Section 382 and 383 have been reflected in the deferred tax assets as of December 31, 2006.

Based upon the available evidence as of December 31, 2006, we are not able to conclude it is more likely than not the remaining deferred tax assets in the U.S. will be realized. Therefore, we have recorded a full valuation allowance against the U.S. deferred tax assets of approximately $36.5 million.

Comparison of Years Ended January 1, 2006 and January 2, 2005

Our fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended January 1, 2006 and January 2, 2005 were 52 and 53 weeks, respectively.

Revenue

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Product revenue	$57,752	$40,497	43%
Service and other revenue	13,935	8,075	73
Research revenue	1,814	2,011	(10)
Total revenue	$73,501	$50,583	45%

Total revenue for the years ended January 1, 2006 and January 2, 2005 was $73.5 million and $50.6 million, respectively. This represents an increase of $22.9 million for 2005, or 45%, compared to 2004.

Product revenue increased to $57.8 million for the year ended January 1, 2006 from $40.5 million for the year ended January 2, 2005. The increase in 2005 was primarily due to higher BeadStation, consumable and, to a lesser extent, oligo sales. Growth in consumable sales was due to the launch of several new products, as well as the growth in our installed base of BeadStations. As of January 1, 2006, we had shipped a total of 126 BeadArray Readers.

Service and other revenue increased to $13.9 million in 2005 from $8.1 million in 2004. The increase in service and other revenue was primarily due to higher demand for third-party SNP genotyping service contracts during the 2005 period. In addition, due to the achievement of a milestone associated with our collaboration agreement with Invitrogen, we recognized revenue of $1.1 million in the fourth quarter of 2005. These increases were partially offset by decreased revenue related to the International HapMap Project. We completed all revenue-generating genotyping services for the International HapMap project early in the first quarter of 2005. We expect sales from third-party SNP genotyping services contracts to fluctuate on a yearly and quarterly basis, depending on the mix and number of contracts that are completed. The timing of completion of a SNP genotyping services contract is highly dependent on the customer's schedule for delivering the SNPs and samples to us.

Government grants and other research funding decreased to $1.8 million for the year ended January 1, 2006 from $2.0 million for the year ended January 2, 2005, due primarily to a decrease in internal research spending for our grants from the National Institutes of Health.

Cost of Product and Service and Other Revenue

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Cost of product revenue	$19,920	$11,572	72%
Cost of service and other revenue	3,261	1,687	93
Total cost of product and service and other revenue	$23,181	$13,259	75%

Cost of product and service and other revenue represents manufacturing costs incurred in the production process, including component materials, assembly labor and overhead, installation, warranty, packaging and delivery costs, as well as costs associated with performing genotyping services on behalf of our customers. Costs related to research revenue are included in research and development expense. Cost of product and service and other revenue increased to $23.2 million for the year ended January 1, 2006, compared to $13.3 million for the year ended January 2, 2005 due primarily to the significant increase in product revenue. Gross margin on product and service and other revenue was 68% for 2005, compared to 73% for 2004.

Cost of product revenue increased to $19.9 million for the year ended January 1, 2006, compared to $11.6 million for the year ended January 2, 2005, due to the significant increase in product revenue. Gross margin on product revenue decreased to 66% for the year ended January 1, 2006, compared to 71% for the year ended January 2, 2005. The decrease in gross margin percentage is primarily due to the impact of product mix. A higher percentage of our revenue in 2005 was generated from the sale of instrumentation, which generally has a lower gross margin than other products. Other factors contributing to the decrease include decreased gross margins related to our consumable and oligo sales. Lower consumable margins can be primarily attributed to lower average selling prices on consumable sales in 2005, compared to 2004, which were partially offset by decreased manufacturing costs. In addition, the gross margin associated with oligo products sold as a part of the Invitrogen collaboration was lower when compared to the prior year. The change in oligo gross margin was due to the fact that, under the Invitrogen collaboration, we no longer sell oligos directly. As a result, the gross margin related to this product line decreased; however, the net margin has increased due to the fact that most of the sales and marketing expenses surrounding the oligo business have shifted to our collaboration partner, Invitrogen.

Cost of service and other revenue increased to $3.3 million for the year ended January 1, 2006, compared to $1.7 million for the year ended January 2, 2005. Gross margin on service and other revenue decreased to 77% for the year ended January 1, 2006 from 79% in the year ended January 2, 2005. The decrease is due primarily to a change in the mix of projects and decreased average selling prices.

We expect product mix to continue to affect our future gross margins. However, we expect our market to become increasingly price competitive and our margins may fluctuate from year to year and quarter to quarter.

Research and Development Expenses

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Research and development	$27,809	$21,462	30%

Our research and development expenses consist primarily of salaries and other personnel-related expenses, laboratory supplies and other expenses related to the design, development, testing and enhancement of our products. We expense our research and development expenses as they are incurred.

Research and development expenses increased to $27.8 million for the year ended January 1, 2006, compared to $21.5 million for the year ended January 2, 2005. Research and development expenses for the years ended January 1, 2006 and January 2, 2005 included stock-based compensation expense of approximately $0.1 million and $0.3 million, respectively. Exclusive of these stock-based compensation charges, the increase in research and development expenses is primarily due to the development expenses incurred to develop our newly-acquired Microbead technology purchased in conjunction with our acquisition of CyVera in April 2005. Research and development expenses related to the VeraCode technology totaled approximately $3.2 million in 2005. Additional factors contributing to the increased research and development expenses during 2005 relate to increased costs of $2.1 million associated with the cost of BeadArray research activities and $1.3 million related to research costs to support our Oligator technology platform. We believe a substantial investment in research and development is essential to remaining competitive and expanding into additional markets. Accordingly, we expect our research and development expenses to increase as we expand our product base and integrate the operations of Solexa into our business.

Selling, General and Administrative Expenses

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Selling, general and administrative	$28,158	$25,576	10%

Our selling, general and administrative expenses consist primarily of personnel costs for sales and marketing, finance, human resources, business development, legal and general management, as well as professional fees, such as expenses for legal and accounting services.

Selling, general and administrative expenses increased to $28.2 million for the year ended January 1, 2006, compared to $25.6 million for the year ended January 2, 2005. Selling, general and administrative expenses for the years ended January 1, 2006 and January 2, 2005 included stock-based compensation expense of approximately $0.2 million and $0.5 million, respectively. Sales and marketing expenses increased $3.6 million, of which $2.7 million was attributable to personnel related expenses for the build-out of our sales force and customer support staff, and $0.9 million is attributable to other non-personnel-related costs, including sales and marketing activities for our existing and new products. General and administrative expenses decreased by $1.0 million in 2005, compared to 2004, due primarily to a $2.5 million decrease in litigation expenses and a $0.3 million decrease in stock-based compensation expense, partially offset by a $1.5 million increase in personnel-related expenses.

We expect our selling, general and administrative expenses to accelerate as we expand our staff, add sales and marketing infrastructure and incur increased litigation costs and additional costs to support the growth in our business.

During 2005, we recorded non-cash compensation expense for accelerated vesting of options for certain employees totaling approximately $0.1 million. This compensation was provided as incentive to continue to work as key members of the sales team associated with the Invitrogen collaboration.

Acquired In-Process Research and Development

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Acquired in-process research and development	$15,800	$—	N/A

During the year ended January 1, 2006, we recorded $15.8 million of acquired in-process research and development (IPR&D) resulting from the CyVera acquisition. These amounts were expensed on the acquisition dates because the acquired technology had not yet reached technological feasibility and had no alternative future uses. At the acquisition date, CyVera's ongoing research and development initiatives were primarily the development of its VeraCode technology and the BeadXpress Reader. The IPR&D charge related to the CyVera acquisition was made up of two projects that were approximately 50% and 25% complete at the date of acquisition. The discount rate applied to calculate the IPR&D charge was 30%. Acquisitions of businesses, products or technologies by us in the future may result in substantial charges for acquired IPR&D that may cause fluctuations in our interim or annual operating results. There were no charges resulting from any acquisitions during the same period in 2006 or 2004.

Litigation Judgment (Settlement), net

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Litigation judgment (settlement), net	$—	$(4,201)	(100%)

We recorded a $7.7 million charge in June 2002 to cover total damages and estimated expenses related to a jury verdict in a termination-of-employment lawsuit. We appealed the decision, and in December 2004, the Fourth Appellate District Court of Appeal, in San Diego, California, reduced the amount of the award. During the appeal process, the court required us to incur interest charges on the judgment amount at statutory rates until the case was resolved. During the years ended January 2, 2005 and December 28, 2003, we recorded $0.6 million and $0.8 million, respectively, of such interest charges as litigation expense. As a result of the revised judgment, we reduced the $9.2 million liability on our balance sheet to $5.9 million and recorded a gain of $3.3 million as a litigation judgment in the fourth quarter of 2004. In addition, in August 2004, we recorded a $1.5 million gain as a result of a settlement with Applera.

Interest Income

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Interest income	$1,404	$941	49%

Interest income on our cash and cash equivalents and investments was $1.4 million and $0.9 million for the years ended January 1, 2006 and January 2, 2005, respectively. The increase was due to higher average cash balances and higher effective interest rates compared to the prior year.

Interest and Other Expense, Net

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Interest and other expense, net	$(668)	$(1,518)	(56%)

Interest and other expense, net consists of interest expense, expenses related to foreign exchange transaction costs and gains and losses on disposals of assets. Interest and other expense, net, decreased to $0.7 million for the year ended January 1, 2006, compared to $1.5 million for the year ended January 2, 2005.

Interest expense was $7,000 for the year ended January 1, 2006, compared to $1.4 million for the year ended January 2, 2005. Interest expense in the 2004 period relates primarily to a $26.0 million fixed rate loan that was paid off in August 2004 in connection with the sale/lease-back of our San Diego facilities.

In the year ended January 1, 2006, we recorded approximately $0.4 million in losses due to foreign currency transactions compared to $0.2 million in foreign currency transaction losses for the year ended January 2, 2005. In addition in 2005, we recorded $0.3 million related to losses on disposal of assets. There were no gains or losses on disposals in 2004.

Provision for Income Taxes

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Provision for income taxes	$163	$135	21%

The Company's provision for income taxes for the years ended January 1, 2006 and January 2, 2005 consisted of $163,000 and $135,000, respectively, for income tax expense related to its foreign operations.

We incurred net operating losses for the years ended January 1, 2006 and January 2, 2005 and, accordingly, we did not pay any U.S. federal or state income taxes. We have recorded a valuation allowance for the full amount of the resulting net deferred tax asset, as the future realization of the tax benefit is uncertain. As of January 1, 2006, we had net operating loss carryforwards for federal and California tax purposes of approximately $103.7 million and $40.1 million, respectively, which begin to expire in 2018 and 2006, respectively, unless previously utilized.

As of January 1, 2006, we also had U.S. federal and California research and development tax credit carryforwards of approximately $4.1 million and $3.8 million, respectively. The federal tax credit carryforwards will begin to expire in 2018 and the California carryforwards have no expiration.

Our utilization of the net operating losses and credits may be subject to substantial annual limitations pursuant to Section 382 and 383 of the Internal Revenue Code, and similar state provisions, as a result of changes in our ownership structure. CyVera Corporation had an ownership change upon our acquisition during 2005 and, accordingly, its net operating loss and tax credit carryforwards are subject to annual limitation. These annual limitations may result in the expiration of net operating losses and credits prior to utilization.

Liquidity and Capital Resources

Cashflow

	Year Ended December 31, 2006	Year Ended January 1, 2006	Year Ended January 2, 2005
		(In thousands)	
Net cash provided (used in) operating activities	$ 39,000	$(9,008)	$(19,574)
Net cash provided by (used in) investing activities	(160,735)	(1,535)	57,022
Net cash provided by financing activities	109,296	5,963	4,875
Effect of foreign currency translation	3	613	1
Net increase (decrease) in cash and cash equivalents	$ (12,436)	$(3,967)	$ 42,324

As of December 31, 2006, we had cash, cash equivalents and short-term investments of approximately $130.8 million. We currently invest our funds in U.S. dollar-based, short-term money market mutual funds, corporate bonds, commercial paper, auction rate certificates and treasury notes.

Our operating activities generated cash of $39.0 million in the year ended December 31, 2006, compared to using cash of $9.0 million in the year ended January 1, 2006. Net cash provided by operating activities in the year ended December 31, 2006 was primarily the result of the following: net income of $40.0 million; $14.3 million related to non-cash stock compensation expense resulting from the adoption of SFAS No. 123R; an $11.5 million increase in accounts payable and accrued liabilities driven by increases in general business activity associated with our sales growth, as well as expenses associated with the expansion of our corporate infrastructure to accommodate this growth; non-cash charges of $6.1 million for depreciation and amortization; a $5.9 million increase in other long-term liabilities primarily due to deferred revenue associated with the agreement with Genizon Biosciences and the deCODE genetics collaboration; and a $1.8 million increase in income taxes payable. These sources were partially offset by a $21.7 million increase in accounts receivable and a $9.7 million increase in inventory primarily due to our significant sales growth of 151% during the year ended December 31, 2006, compared to the year ended January 1, 2006, which resulted from increased customer demand and introduction of our new products and services into the market; a $5.3 million increase in other assets primarily due to increased long-term cost of sales associated with Genizon and deCODE and capitalized costs associated with the Solexa acquisition; a $1.6 million increase in prepaid expenses and other current assets primarily associated with increased prepaid software licenses and insurance, as well as an increase in interest receivable, $1.4 million for an incremental tax benefit related to stock option exercises and an increase of $0.6 million in deferred income taxes. Net cash used in operating activities in the year ended January 1, 2006 was primarily the result of a net loss from operations of $20.9 million, a $6.0 million payment for a litigation judgment, a $7.0 million increase in accounts receivable and a $6.5 million increase in inventory, reduced by a $7.4 million increase in accounts payable and accrued liabilities, a $3.2 million increase in long-term liabilities primarily related to payments received from Invitrogen recorded as deferred revenue, non cash charges of $4.1 million for depreciation and amortization and a non-cash acquired IPR&D charge of $15.8 million related to the CyVera acquisition.

Our investing activities used cash of $160.7 million in the year ended December 31, 2006, compared to using cash of $1.5 million in the year ended January 1, 2006. Cash used in investing activities in the year ended December 31, 2006 was primarily due to the purchase of available-for-sale securities totaling $236.3 million, a $50.0 million investment in Solexa, and the purchase of a $3.0 million secured convertible debenture in Genizon. Further, $15.1 million was used for the purchase of property and equipment primarily related to the expansion of our manufacturing capacity. Our manufacturing capacity for BeadChips has increased approximately fourfold over the level as of January 1, 2006. These uses of cash were partially offset by $143.8 million provided by sales and maturities of available-for-sale securities. Cash used by investing activities in the year ended January 1, 2006 was due to $11.4 million used for the purchase of property and equipment and $2.4 million paid for the acquisition of CyVera, reduced by $12.2 million from the sale or maturity of investment securities used to provide operating funds for our business.

Our financing activities provided $109.3 million in the in the year ended December 31, 2006, compared to $6.0 million in the year ended January 1, 2006. Cash provided by financing activities in the year ended December 31, 2006 was primarily due to $96.5 million in net proceeds from a public stock offering completed in May 2006, as well as proceeds from the issuance of common stock from option exercises and employee stock purchase plan purchases totaling $11.4 million. Cash provided from financing activities in the year ended January 1, 2006 was primarily proceeds from the issuance of common stock from option exercises.

In February 2007, we issued $400 million principal amount of 0.625% Convertible Senior Notes due 2014. The net proceeds from the offering, after deducting the initial purchasers' discount and offering expenses, were approximately $390.3 million. We used approximately $202 million of the net proceeds to purchase shares of our common stock in privately negotiated transactions concurrently with the offering. We used $46.6 million of the net proceeds of this offering to pay the cost of convertible note hedge and warrant transactions, which are designed to reduce the potential dilution upon conversion of the notes. We intend to use the balance of the net proceeds for other general corporate purposes, which may include acquisitions and additional purchases of our common stock. The notes mature on February 15, 2014 and bear interest semi-annually at a rate of 0.625% per year, payable on February 15 and August 15 of each year, beginning on August 15, 2007. In addition, we may in certain circumstances be obligated to pay additional interest. If a "designated event," as defined in the indenture for the notes, occurs, holders of the notes may require us to repurchase all or a portion of their notes for cash at a repurchase price equal to the principal amount of the notes to be repurchased, plus accrued and unpaid interest. In addition, upon conversion of the notes, we must pay the principal portion in cash. The notes will become convertible only in certain circumstances based on conditions relating to the trading price of the notes and our common stock or upon the occurrence of specified corporate events. However, the notes will be convertible at any time from, and including, November 15, 2013 through the third scheduled trading day immediately preceding February 15, 2014.

We anticipate that our current cash and cash equivalents and income from operations will be sufficient to fund our operating needs for at least the next twelve months. Operating needs include the planned costs to operate our business, including amounts required to fund working capital and capital expenditures. At the present time, we have no material commitments for capital expenditures. However, our future capital requirements and the adequacy of our available funds will depend on many factors, including the successful resolution of our legal proceedings with Affymetrix, our ability to successfully commercialize our sequencing systems and to expand our SNP genotyping services product lines, scientific progress in our research and development programs, the magnitude of those programs, competing technological and market developments and the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings. Therefore, we may require additional funding in the future.

Off-Balance Sheet Arrangements and Contractual Obligations

We do not participate in any transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (SPEs), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of December 31, 2006, we were not involved in any SPE transactions.

In January 2002, we purchased two newly constructed buildings and assumed a $26.0 million, ten-year mortgage on the property at a fixed interest rate of 8.36%. In June 2004, we entered into a conditional agreement to sell our land and buildings for $42.0 million and to lease back such property for an initial term of ten years. The sale was completed in August 2004 at which time the lease was signed. After the repayment of the remaining $25.2 million debt and other related transaction expenses, we received $15.5 million in net cash proceeds. We removed the land and net book value of the buildings of $36.9 million from our balance sheet and are recording the resulting $3.7 million gain on the sale of the property over the lease term in accordance with SFAS No. 13, *Accounting for Leases*. Under the terms of the lease, we made a $1.9 million security deposit, with monthly rental payments of $318,643 for the first year with an annual increase of 3% in each subsequent year through 2014. The current monthly rent under this lease is $338,048. On February 14, 2007, we extended this lease. The terms of the new lease provide for monthly rent increases each year to a maximum of $504,710 per month during the last year of the lease, which is now 2023. We have the option to extend the term of the lease for three additional five-year periods.

As of December 31, 2006, we also leased an office and laboratory facility in Connecticut, additional office, distribution and storage facilities in San Diego, and four foreign facilities located in Japan, Singapore, China and the Netherlands under non-cancelable operating leases that expire at various times through July 2011. These leases contain renewal options ranging from one to five years.

As of December 31, 2006, our contractual obligations were (in thousands):

	Payments Due by Period				
Contractual Obligation	Total	Less Than 1 Year	1 – 3 Years	1 – 5 Years	More Than 5 Years
Operating leases	$37,899	$5,320	$10,410	$9,371	$12,798
Total	$37,899	$5,320	$10,410	$9,371	$12,798

The above table does not include orders for goods and services entered into in the normal course of business that are not enforceable or legally binding.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

Interest Rate Sensitivity

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. The fair market value of fixed rate securities may be adversely impacted by fluctuations in interest rates while income earned on floating rate securities may decline as a result of decreases in interest rates. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We attempt to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities. We have historically maintained a relatively short average maturity for our investment portfolio, and we believe a hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of our interest sensitive financial instruments.

Foreign Currency Exchange Risk

Although most of our revenue is realized in U.S. dollars, some portions of our revenue are realized in foreign currencies. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. The functional currencies of our subsidiaries are their respective local currencies. Accordingly, the accounts of these operations are translated from the local currency to the U.S. dollar using the current exchange rate in effect at the balance sheet date for the balance sheet accounts, and using the average exchange rate during the period for revenue and expense accounts. The effects of translation are recorded in accumulated other comprehensive income as a separate component of stockholders' equity.

Periodically, we hedge significant foreign currency firm sales commitments and accounts receivable with forward contracts. We only use derivative financial instruments to reduce foreign currency exchange rate risks; we do not hold any derivative financial instruments for trading or speculative purposes. We primarily use forward exchange contracts to hedge foreign currency exposures and they generally have terms of one year or less. These contracts have been designated as cash flow hedges and accordingly, to the extent effective, any unrealized gains or losses on these foreign currency forward contracts are reported in other comprehensive income. Realized gains and losses for the effective portion are recognized with the underlying hedge transaction. As of December 31, 2006, we had no foreign currency forward contracts outstanding. The notional settlement amount of the foreign currency forward contracts outstanding at December 31, 2006 and January 1, 2006 were $0 and $0.1 million, respectively. As of January 1, 2006, we had one outstanding contract with an immaterial fair value, representing an unrealized gain, which was included in other current assets at January 1, 2006. We settled foreign exchange contracts of $0.1 million and $5.2 million for the years ended December 31, 2006 and January 1, 2006, respectively. We did not hold any derivative financial instruments prior to fiscal 2004.

Item 8. ***Financial Statements and Supplementary Data.***

The Report of Independent Registered Public Accounting Firm, Financial Statements and Notes to Financial Statements begin on page F-1 immediately following the signature page and are incorporated herein by reference.

Our fiscal year is 52 or 53 weeks ending on the Sunday closest to December 31, with quarters of 13 or 14 weeks ending on the Sunday closest to March 31, June 30 and September 30. The years ended December 31, 2006 and January 1, 2006 were both 52 weeks. The year ended January 2, 2005 was 53 weeks.

Item 9. ***Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.***

None.

Item 9A. ***Controls and Procedures.***

We design our internal controls to provide reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported in conformity with U.S. generally accepted accounting principles. We also maintain internal controls and procedures to ensure that we comply with applicable laws and our established financial policies.

Exhibit 220

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Item 6. *Selected Financial Data.*

The following table sets forth selected historical consolidated financial data for each of our last five fiscal years during the period ended December 30, 2007.

Statement of Operations Data

	Year Ended December 30, 2007 (52 weeks)	Year Ended December 31 2006 (52 weeks)	Year Ended January 1, 2006 (52 weeks)	Year Ended January 2, 2005 (53 weeks)	Year Ended December 28, 2003 (52 weeks)
	(In thousands, except per share data)				
Revenue:					
Product revenue	$ 326,699	$155,811	$ 57,752	$40,497	$ 18,378
Service and other revenue	40,100	28,775	15,749	10,086	9,657
Total revenue	366,799	184,586	73,501	50,583	28,035
Costs and expenses:					
Cost of product revenue (including non-cash stock compensation expense of $4,045, $1,289, $0, $0 and $0, respectively)	119,991	51,271	19,920	11,572	7,437
Cost of service and other revenue (including non-cash stock compensation expense of $279, $235, $0, $0 and $0, respectively)	12,445	8,073	3,261	1,687	2,600
Research and development (including non-cash stock compensation expense of $10,016, $3,891, $84, $348 and $1,289, respectively)	73,943	33,373	27,809	21,462	23,800
Selling, general and administrative (including non-cash stock compensation expense of $19,406, $8,889, $186, $496 and $1,165, respectively)	101,256	54,057	28,158	25,576	20,064
Amortization of acquired intangible assets	2,429	—	—	—	—
Acquired in-process research and development(1)	303,400	—	15,800	—	—
Litigation settlements (judgment), net(2)	54,536	—	—	(4,201)	756
Total costs and expenses	668,000	146,774	94,948	56,096	54,657
Income (loss) from operations(1),(2)	(301,201)	37,812	(21,447)	(5,513)	(26,622)
Interest income	16,026	5,368	1,404	941	1,821
Interest and other expense, net	(3,610)	(560)	(668)	(1,518)	(2,262)
Income (loss) before income taxes	(288,785)	42,620	(20,711)	(6,090)	(27,063)
Provision (benefit) for income taxes(5)	(10,426)	2,652	163	135	—
Net income (loss)	$(278,359)	$ 39,968	$(20,874)	$ (6,225)	$(27,063)
Net income (loss) per basic share	$ (5.14)	$ 0.90	$ (0.52)	$ (0.17)	$ (0.85)
Net income (loss) per diluted share	$ (5.14)	$ 0.82	$ (0.52)	$ (0.17)	$ (0.85)
Shares used in calculating basic net income (loss) per share(3)	54,154	44,501	40,147	35,845	31,925
Shares used in calculating diluted net income (loss) per share(3)	54,154	48,754	40,147	35,845	31,925

Balance Sheet Data

	December 30, 2007	December 31, 2006	January 1, 2006	January 2, 2005	December 28, 2003
			(In thousands)		
Cash, cash equivalents and short-term investments(2)	$ 386,082	$ 130,804	$ 50,822	$ 66,994	$ 33,882
Working capital	397,040	159,950	57,992	64,643	32,229
Total assets	987,732	300,584	100,610	94,907	99,234
Long-term debt, less current portion(4)	400,000	—	54	—	24,999
Accumulated deficit	(382,977)	(104,618)	(144,586)	(123,712)	(117,487)
Total stockholders' equity(1),(2),(4)	411,678	247,342	72,497	72,262	47,388

In addition to the following notes, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8, "Financial Statements and Supplementary Data" for further information regarding our consolidated results of operations and financial position for periods reported therein and for known factors that will impact comparability of future results.

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(1) The consolidated financial statements include results of operations of acquired companies commencing on their respective acquisition dates. In January 2007, we completed our acquisition of Solexa in a stock for stock merger transaction for a total purchase price of $618.7 million. In April 2005, we completed our acquisition of Cyvera Corporation for a total purchase price of $17.8 million. As part of the accounting for the acquisitions of Solexa in 2007 and Cyvera in 2005, we recorded charges to write-off acquired in-process research and development, or IPR&D of $303.4 million and $15.8 million, respectively. The IPR&D charge represents an estimate of the fair value of the in-process research and development for projects and technologies that, as of the acquisition date, had not reached technological feasibility and had no alternative future use. See Note 2 of Notes to Consolidated Financial Statements for further information regarding our Solexa acquisition.

(2) The litigation settlements of $54.5 million for the year ended December 30, 2007 are associated with two settlement agreements entered in January 2008. $54.0 million relates to the settlement with Affymetrix. In January 2008, we paid Affymetrix $90.0 million related to the Affymetrix settlement. See Note 8 of Notes to Consolidated Financial Statements for further information regarding these settlements. The $4.2 million judgment, representing a gain recorded for the reversal of a prior accrual, and the $0.8 million settlement for the years ended January 2, 2005 and December 28, 2003, respectively, are associated with a litigation judgment for a jury verdict in a termination-of-employment lawsuit.

(3) For an explanation of the determination of the number of shares used to compute basic and diluted net income (loss) per share, see Note 1 of Notes to Consolidated Financial Statements.

(4) In February 2007, we issued $400.0 million principal amount of 0.625% Convertible Senior Notes (the "Notes") due 2014, which included the full exercise of the initial purchasers' option to purchase up to an additional $50.0 million aggregate principal amount of Notes. In connection with the offering of the Notes, we entered into convertible note hedge transactions entitling us to purchase up to 11,451,480 shares of our common stock (subject to adjustment) at an initial strike price (subject to adjustment) of $43.66 per share. Additionally, we sold warrants to the initial purchasers and/or their affiliates to acquire up to 18,322,320 shares of our common stock (subject to adjustment) at an initial strike price (subject to adjustment) of $62.87 per share. See Note 5 of Notes to Consolidated Financial Statements for further information regarding the Notes.

(5) For an explanation of the determination of the tax provision (benefit) recorded see Note 11 of Notes to Consolidated Financial Statements.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operation.*

The following discussion and analysis should be read with "Item 6. Selected Financial Data" and our consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. The discussion and analysis in this Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. Words such as "anticipate," "believe," "continue," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project" or similar words or phrases, or the negatives of these words, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward looking. Examples of forward-looking statements include, among others, statements regarding the integration of Solexa's and CyVera's technology with our existing technology, the commercial launch of new products, including products based on Solexa's and CyVera's technology, and the duration which our existing cash and other resources is expected to fund our operating activities.

Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward looking statements. Factors that could cause or contribute to these differences include those discussed in "Item 1A. Risk Factors" as well as those discussed elsewhere. The risk factors and other cautionary statements made in this Annual Report on Form 10-K should be read as applying to all related forward-looking statements wherever they appear in this Annual Report on Form 10-K.

Overview

We are a leading developer, manufacturer and marketer of integrated systems for the large scale analysis of genetic variation and biological function. Using our proprietary technologies, we provide a comprehensive line of products and services that currently serve the sequencing, genotyping and gene expression markets. In the future, we expect to enter the market for molecular diagnostics. Our customers include leading genomic research centers, pharmaceutical companies, academic institutions, clinical research organizations and biotechnology companies. Our tools provide researchers around the world with the performance, throughput, cost effectiveness and flexibility necessary to perform the billions of genetic tests needed to extract valuable medical information from advances in genomics and proteomics. We believe this information will enable researchers to correlate genetic variation and biological function, which will enhance drug discovery and clinical research, allow diseases to be detected earlier and permit better choices of drugs for individual patients.

In April 2005, we completed the acquisition of CyVera. The aggregate consideration for the transaction was $14.5 million, consisting of approximately 1.5 million shares of our common stock and payment of approximately $2.3 million of CyVera's liabilities at the closing.

On January 26, 2007, we completed the acquisition of Solexa for approximately 13.1 million shares of our common stock. Solexa develops and commercializes genetic analysis technologies used to perform a range of analyses including whole genome resequencing, gene expressing analysis and small RNA analysis. We believe our combined company is the only company with genome-scale technology for genotyping, gene expression and sequencing, the three cornerstones of modern genetic analysis.

Our revenue is subject to fluctuations due to the timing of sales of high-value products and service projects, the impact of seasonal spending patterns, the timing and size of research projects our customers perform, changes in overall spending levels in the life science industry and other unpredictable factors that may affect our customer ordering patterns. Any significant delays in the commercial launch or any lack or delay of commercial acceptance of new products, unfavorable sales trends in our existing product lines, or impacts from the other factors mentioned above, could adversely affect our revenue growth or cause a sequential decline in quarterly revenue. Due to the possibility of fluctuations in our revenue and net income or loss, we believe quarterly comparisons of our operating results are not a good indication of our future performance.

As of December 30, 2007, our accumulated deficit was $383.0 million and total stockholders' equity was $411.7 million. Our losses have principally occurred as a result of acquired in-process research and development charges of $303.4 million related to our acquisition of Solexa in 2007, the substantial resources required for the research, development and manufacturing scale-up effort required to commercialize our products and services, a charge of $54.5 million in 2007 primarily related to settlement of our litigation with Affymetrix and $15.8 million related to our acquisition of CyVera in 2005. We expect to continue to incur substantial costs for research, development and manufacturing scale-up activities over the next several years. We will also need to increase our selling, general and administrative costs as we build up our sales and marketing infrastructure to expand and support the sale of systems, other products and services.

Critical Accounting Policies and Estimates

General

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of financial statements requires that management make estimates, assumptions and judgments with respect to the application of accounting policies that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

Our significant accounting policies are described in Note 1 to our consolidated financial statements. Certain accounting policies are deemed critical if 1) they require an accounting estimate to be made based on assumptions that were highly uncertain at the time the estimate was made, and 2) changes in the estimate that are reasonably likely to occur, or different estimates that we reasonably could have used would have a material effect on our consolidated financial statements.

Management has discussed the development and selection of these critical accounting policies with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed the disclosure. In addition, there are other items within our financial statements that require estimation, but are not deemed critical as defined above.

We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of the consolidated financial statements.

Revenue Recognition

Our revenue is generated primarily from the sale of products and services. Product revenue consists of sales of arrays, reagents, flow cells, instrumentation and oligos. Service and other revenue consists of revenue received for performing genotyping and sequencing services, extended warranty sales and amounts earned under research agreements with government grants, which is recognized in the period during which the related costs are incurred.

We recognize revenue in accordance with the guidelines established by SEC Staff Accounting Bulletin (SAB) No. 104. Under SAB No. 104, revenue cannot be recorded until all of the following criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller's price to the buyer is fixed or determinable; and collectibility is reasonably assured. All revenue is recorded net of any applicable allowances for returns or discounts.

Revenue for product sales is recognized generally upon shipment and transfer of title to the customer, provided no significant obligations remain and collection of the receivables is reasonably assured. Revenue from the sale of instrumentation is recognized when earned, which is generally upon shipment. Revenue for genotyping and sequencing services is recognized when earned, which is generally at the time the genotyping and sequencing analysis data is delivered to the customer.

In order to assess whether the price is fixed and determinable, we ensure there are no refund rights. If payment terms are based on future performance or a right of return exists, we defer revenue recognition until the price becomes fixed and determinable. We assess collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If we determine that collection of a payment is not reasonably assured, revenue recognition is deferred until the time collection becomes reasonably assured, which is generally upon receipt of payment. Changes in judgments and estimates regarding application of SAB No. 104 might result in a change in the timing or amount of revenue recognized.

Sales of instrumentation generally include a standard one-year warranty. We also sell separately priced maintenance (extended warranty) contracts, which are generally for one or two years, upon the expiration of the initial warranty. Revenue for extended warranty sales is recognized ratably over the term of the extended warranty period. Reserves are provided for estimated product warranty expenses at the time the associated revenue is recognized. If we were to experience an increase in warranty claims or if costs of servicing our warrantied products were greater than our estimates, gross margins could be adversely affected.

While the majority of our sales agreements contain standard terms and conditions, we do enter into agreements that contain multiple elements or non-standard terms and conditions. Emerging Issues Task Force (EITF) No. 00-21, *Revenue Arrangements with Multiple Deliverables,* provides guidance on accounting for arrangements that involve the delivery or performance of multiple products, services, or rights to use assets within contractually binding arrangements. Significant contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, how the price should be allocated among the deliverable elements, when to recognize revenue for each element, and the period over which revenue should be recognized. We recognize revenue for delivered elements only when we determine that the fair values of undelivered elements are known and there are no uncertainties regarding customer acceptance.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We evaluate the collectibility of our accounts receivable based on a combination of factors. We regularly analyze customer accounts, review the length of time receivables are outstanding and review historical loss rates. If the financial condition of our customers were to deteriorate, additional allowances could be required.

Inventory Valuation

We record adjustments to inventory for potentially excess, obsolete or impaired goods in order to state inventory at net realizable value. We must make assumptions about future demand, market conditions and the release of new products that will supercede old ones. We regularly review inventory for excess and obsolete products and components, taking into account product life cycle and development plans, product expiration and quality issues, historical experience and our current inventory levels. If actual market conditions are less favorable than anticipated, additional inventory adjustments could be required.

Contingencies

We are subject to legal proceedings primarily related to intellectual property matters. Based on the information available at the balance sheet dates and through consultation with our legal counsel, we assess the likelihood of any adverse judgments or outcomes of these matters, as well as the potential ranges of probable losses. If losses are probable and reasonably estimable, we will record a liability in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies.*

Goodwill and Intangible Asset Valuation

Our goodwill represents the excess of the cost over the fair value of net assets acquired from our Solexa and Cyvera acquisitions. Our intangible assets are comprised primarily of acquired technology and customer relationships from the acquisition of Solexa and licensed technology from the Affymetrix settlement. We make significant judgments in relation to the valuation of goodwill and intangible assets resulting from (i) acquisitions; and (ii) litigation settlements.

In determining the carrying amount of our goodwill and intangible assets arising from acquisitions, we used the purchase method of accounting. The purchase method of accounting requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair value of the net tangible and intangible assets acquired, including in-process research and development (IPR&D). Goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to at least annual impairment tests. The amounts and useful lives assigned to other acquired intangible assets impact future amortization, and the amount assigned to IPR&D is expensed immediately.

Determining the fair values and useful lives of intangible assets acquired as part of litigation settlements also requires the exercise of judgment. While there are a number of different generally accepted valuation methods to estimate the value of intangible assets, we used the discounted cash flow method in determining the value of licensed technology associated with the settlement of our Affymetrix litigation. This method required significant management judgment to forecast the future operating results used in the analysis. In addition, other significant estimates were required such as residual growth rates and discount factors. The estimates we used to value and amortize intangible assets were consistent with the plans and estimates that we use to manage our business and based on available historical information and industry estimates and averages. These judgments can significantly affect our net operating results. In addition, we performed a sensitivity analysis to determine the effect a change in revenue projections of 10% would have on our intangible asset, noting the impact would be a reduction or increase in the value of the intangible asset of $2.0 million.

SFAS No. 142, *Goodwill and Other Intangible Assets,* requires that goodwill and certain intangible assets be assessed for impairment using fair value measurement techniques. If the carrying amount of a reporting unit exceeds its fair value, then a goodwill impairment test is performed to measure the amount of the impairment loss, if any. The goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as in a business combination. Determining the fair value of the implied goodwill is judgmental in nature and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. Estimates of fair value are primarily determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions, including projection and timing of future cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, determination of appropriate market comparables, and determination of whether a premium or discount should be applied to comparables. It is reasonably possible that the plans and estimates used to value these assets may be incorrect. If our actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges. We have performed our annual test of goodwill as of May 1, 2007, noting no impairment, and have determined there has been no impairment of goodwill through December 30, 2007.

Stock-Based Compensation

We account for stock-based compensation in accordance with SFAS No. 123R, *Share-Based Payment.* Under the provisions of SFAS No. 123R, stock-based compensation cost is estimated at the grant date based on the award's fair-value as calculated by the Black-Scholes-Merton (BSM) option-pricing model and is recognized as expense over the requisite service period. The BSM model requires various highly judgmental assumptions including volatility, forfeiture rates, and expected option life. If any of

these assumptions used in the BSM model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

Income Taxes

In accordance with SFAS No. 109, *Accounting for Income Taxes*, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and credit carryforwards. Deferred tax assets and liabilities are determined using the enacted tax rates in effect for the years in which those tax assets are expected to be realized. A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction by jurisdiction basis, and includes a review of all available positive and negative evidence. As of December 30, 2007, we have maintained a valuation allowance only against certain U.S. and foreign deferred tax assets that we concluded have not met the "more likely than not" threshold required under SFAS No. 109.

Due to the adoption of SFAS No. 123R, we recognize excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, we follow the with-and-without approach, excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to us.

Effective January 1, 2007, we adopted FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in tax positions. FIN No. 48 requires that we recognize the impact of a tax position in our financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense.

Results of Operations

To enhance comparability, the following table sets forth audited consolidated statement of operations data for the years ended December 30, 2007, December 31, 2006, and January 1, 2006 stated as a percentage of total revenue.

	Year Ended December 30, 2007	Year Ended December 31, 2006	Year Ended January 1, 2006
Revenue			
Product revenue	89%	84%	79%
Service and other revenue	11	16	21
Total revenue	100	100	100
Costs and expenses:			
Cost of product revenue	33	28	27
Cost of service and other revenue	3	5	4
Research and development	20	18	38
Selling, general and administrative	27	29	38
Amortization of acquired intangible assets	1	—	—
Acquired in-process research and development	83	—	22
Litigation settlements	15	—	—
Total costs and expenses	182	80	129
Income (loss) from operations	(82)	20	(29)
Interest income	4	3	2
Interest and other expense, net	(1)	—	(1)
Income (loss) before income taxes	(79)	23	(28)
Provision (benefit) for income taxes	(3)	1	—
Net income (loss)	(76)%	22%	(28)%

Comparison of Years Ended December 30, 2007 and December 31, 2006

Our fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended December 30, 2007 and December 31, 2006 were both 52 weeks.

Revenue

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Product revenue	$326,699	$155,811	110%
Service and other revenue	40,100	28,775	39
Total revenue	$366,799	$184,586	99%

Total revenue for the years ended December 30, 2007 and December 31, 2006 was $366.8 million and $184.6 million, respectively. This represents an increase of $182.2 million for 2007, or 99%, compared to 2006.

Product revenue increased to $326.7 million for the year ended December 30, 2007 from $155.8 million for the year ended December 31, 2006. Consumable products and instruments

constituted 59% and 37% of product revenue for the year ended December 30, 2007, respectively, compared to 64% and 28% for the year ended December 31, 2006, respectively. The change in sales associated with our product mix is due to increased sales in instruments primarily attributable to the Genome Analyzer, which was introduced during the first quarter of 2007. Growth in consumable revenue was primarily attributable to strong demand for our Infinium products. We expect to see continued growth in product revenue, which can be mainly attributed to the launch of several new products, sales of existing products and the growth of our installed base of instruments.

Service and other revenue increased to $40.1 million for the year ended December 30, 2007 from $28.8 million for the year ended December 31, 2006. Service and other revenue includes revenue generated from genotyping and sequencing service contracts and extended warranty contracts. In 2007, service and other revenue also includes research revenue. Historically, research revenue was included in a separate line item on the Consolidated Statements of Operations. The increase in service and other revenue is primarily due to the completion of several significant Infinium and iSelect custom SNP genotyping service contracts and sequencing services contracts. We expect sales from SNP genotyping and sequencing services contracts to fluctuate on a yearly and quarterly basis, depending on the mix and number of contracts that are completed. The timing of completion of SNP genotyping and sequencing services contracts are highly dependent on the customers' schedules for delivering the SNPs and samples to us.

Cost of Product and Service and Other Revenue

	Year Ended December 30, 2007	Year Ended December 30, 2006	Percentage Change
	(In thousands)		
Cost of product revenue	$119,991	$51,271	134%
Cost of service and other revenue	12,445	8,073	54
Total cost of product and service and other revenue	$132,436	$59,344	123%

Cost of product and service and other revenue represents manufacturing costs incurred in the production process, including component materials, assembly labor and overhead, installation, warranty, packaging and delivery costs, as well as costs associated with performing genotyping and sequencing services on behalf of our customers. Cost of product revenue increased to $120.0 million for the year ended December 30, 2007, compared to $51.3 million for the year ended December 31, 2006, primarily driven by higher consumable and instrument sales. Cost of product revenue for the years ended December 30, 2007 and December 31, 2006 included non-cash stock-based compensation expense of $4.0 million and $1.3 million, respectively. Gross margin on product revenue decreased to 63.3% for the year ended December 30, 2007, compared to 67.1% for the year ended December 31, 2006. The decrease in the gross margin percentage is primarily due to the shift in product mix towards instruments. In addition, the gross margin percentage was adversely impacted by the increase in non-cash stock-based compensation expense as well as $0.7 million associated with the amortization of inventory revaluation costs related to our acquisition of Solexa in January 2007. The impact of non-cash stock-based compensation charges decreased our gross margin by 41 basis points for the year ended December 30, 2007 compared to the year ended December 31, 2006. The inventory revaluation costs decreased our gross margin by 24 basis points for the year ended December 30, 2007, compared to the year ended December 31, 2006.

Cost of service and other revenue increased to $12.4 million for the year ended December 30, 2007, compared to $8.1 million for the year ended December 31, 2006, primarily due to higher service revenue. Gross margin on service and other revenue decreased to 69.0% for the year ended December 30, 2007, compared to 71.9% for the year ended December 31, 2006. The decrease in the gross margin percentage is primarily driven by unfavorable product mix.

We expect product mix to continue to affect our future gross margins. We expect price competition to continue in our market, and our margins may fluctuate from year to year and quarter to quarter as a result.

Research and Development Expenses

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Research and development	$73,943	$33,373	122%

Our research and development expenses consist primarily of salaries and other personnel-related expenses, laboratory supplies and other expenses related to the design, development, testing and enhancement of our products. We expense our research and development expenses as they are incurred.

Research and development expenses increased to $73.9 million for the year ended December 30, 2007, compared to $33.4 million for the year ended December 31, 2006. Research and development expenses as a percentage of total revenue were 20.2% for the year ended December 30, 2007, compared to 18.1% for the year ended December 31, 2006. Approximately $27.0 million of the increase for the year ended December 30, 2007 was due to higher research and development expenses associated with our acquisition of Solexa in January 2007. Costs to support our BeadArray technology research activities increased approximately $8.5 million for the year ended December 30, 2007, compared to the year ended December 31, 2006, primarily due to an overall increase in personnel-related expenses and increased lab and material expenses. Several new Infinium chip products, including the Human 1M DNA Analysis BeadChip, HumanCNV370-Duo BeadChip and HumanHap550-Duo BeadChip, have been introduced to the market in 2007. In addition, non-cash stock-based compensation expense increased approximately $6.1 million compared to the year ended December 31, 2006. These increases were partially offset by a $1.0 million decrease in research and development expenses related to the VeraCode technology, compared to the year ended December 31, 2006. We began shipping our BeadXpress System, which is based on our VeraCode technology, during the first quarter of 2007. As a result of completing the development of this product, the related research and development expenses have decreased.

We believe a substantial investment in research and development is essential to remaining competitive and expanding into additional markets. Accordingly, we expect our research and development expenses to increase in absolute dollars as we expand our product base.

Selling, General and Administrative Expenses

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Selling, general and administrative	$101,256	$54,057	87%

Our selling, general and administrative expenses consist primarily of personnel costs for sales and marketing, finance, human resources, business development, legal and general management, as well as professional fees, such as expenses for legal and accounting services. Selling, general and administrative expenses increased to $101.3 million for the year ended December 30, 2007, compared to $54.1 million for the year December 31, 2006.

Sales and marketing expenses increased $24.5 million during the year ended December 30, 2007, compared to the year ended December 31, 2006. The increase is primarily due to increases of $18.6 million attributable to personnel-related expenses to support the growth of our business, $3.3 million of non-cash stock-based compensation expense and $2.6 million attributable to other non-personnel-related expenses consisting mainly of sales and marketing activities for our existing and new products. General and administrative expense increased $22.7 million during the year ended

December 30, 2007, compared to the year ended December 30, 2006, due to increases of $8.7 million in personnel-related expenses associated with the growth of our business, $7.2 million of non-cash stock-based compensation expense, $3.4 million in outside legal fees, $3.3 million in other outside service expenses, primarily due to increases in consulting fees and increased tax, audit, and other public company costs.

We expect our selling, general and administrative expenses to increase in absolute dollars as we expand our staff, add sales and marketing infrastructure and incur additional costs to support the growth in our business.

Amortization of Acquired Intangible Assets

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Amortization of acquired intangible assets	$2,429	$—	N/A

Amortization of acquired intangible assets totaled $2.4 million for the year ended December 30, 2007. There was no amortization of acquired intangibles for the year ended December 31, 2006. The amount amortized in 2007 represents the amortization of our intangible assets acquired from Solexa in January 2007.

Acquired In-Process Research and Development

	Year Ended December 30, 2007	Year Ended December 30, 2006	Percentage Change
	(In thousands)		
Acquired in process research and development . .	$303,400	$	N/A

During the year ended December 30, 2007, we recorded $303.4 million of acquired IPR&D resulting from the Solexa acquisition. At the acquisition date, Solexa's ongoing research and development initiatives were primarily involved with the development of its genetic analysis platform for sequencing and expression profiling. These in-process research and development projects are comprised of Solexa's reversible terminating nucleotide biochemistry platform, referred to as sequencing-by-synthesis (SBS) biochemistry, as well as Solexa's reagent, analyzer and sequencing services related technologies, which were valued at $237.2 million, $44.2 million, $19.1 million and $2.9 million, respectively, at the acquisition date. Although these projects were approximately 95% complete at the acquisition date, they had not reached technological feasibility and had no alternative future use. Accordingly, the amounts allocated to those projects were written off in the first quarter of 2007, the period the acquisition was consummated. Acquisitions of businesses, products or technologies by us in the future may result in substantial charges for acquired IPR&D that may cause fluctuations in our interim or annual operating results. There were no charges resulting from any acquisitions during the same period in fiscal 2006.

Litigation Settlements

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Litigation settlements	$54,536	$—	N/A

During the year ended December 30, 2007, we recorded a charge of $54.5 million associated with two settlement agreements entered into subsequent to year-end. The total charge is comprised primarily of $54.0 million related to a $90.0 million settlement with Affymetrix entered into on January 9, 2008 for certain patent litigation between the parties. See Note 8 of Notes to Consolidated Financial Statements for further information regarding this settlement.

Interest Income

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Interest income	$16,026	$5,368	199%

Interest income on our cash and cash equivalents and investments was $16.0 million and $5.4 million for the years ended December 30, 2007 and December 31, 2006, respectively. The increase in interest income over the prior year was primarily driven by higher cash balances from the proceeds of our February 2007 convertible debt offering, cash acquired as part of the Solexa acquisition, and improved operating cash flow. In addition, we experienced higher effective interest rates on our cash equivalents and short-term investments.

Interest and Other Expense, Net

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Interest and other expense, net	$(3,610)	$(560)	545%

Interest and other expense, net, consists of interest expense and other income and expenses related to net foreign currency exchange transaction gains and losses. Interest and other expense, net, increased to $3.6 million for the year ended December 30, 2007, compared to $0.6 million for the year ended December 31, 2006.

Interest expense was $3.6 million for the year ended December 30, 2007, compared to $11,000 for the year ended December 31, 2006. The increase is primarily related to our convertible debt offering in February 2007. For the years ended December 30, 2007 and December 31, 2006, we recorded approximately $0.5 million and $0.4 million, respectively, in net foreign currency transaction losses, respectively. In 2007, these foreign currency exchange losses were offset by $0.5 million of foreign currency exchange gains associated with the sale of our secured convertible debentures with Genizon BioSciences, Inc. (Genizon) in the fourth quarter of 2007. See Note 10 of Notes to Consolidated Financial Statements for further information regarding the sale of our debentures with Genizon.

Provision (benefit) for Income Taxes

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Provision (benefit) for income taxes	$(10,426)	$2,652	(493%)

The provision (benefit) for income taxes was approximately ($10.4) million and $2.7 million for the years ended December 30, 2007 and December 31, 2006, respectively. The provision consists of federal, state, and foreign income tax expense, offset in 2007 by the release of the valuation allowance against a significant portion of our U.S. deferred tax assets.

During the year ended December 30, 2007, we utilized approximately $72.9 million and $10.8 million of our federal and state net operating loss carryforwards, respectively, to reduce our federal and state income taxes. As of December 30, 2007, we had net operating loss carryforwards for federal and state tax purposes of approximately $28.7 million and $99.1 million, respectively, which begin to expire in 2025 and 2015, respectively, unless previously utilized. In addition, we also had U.S. federal and state research and development tax credit carryforwards of approximately $9.2 million and $9.3 million respectively, which begin to expire in 2018 and 2019 respectively, unless previously utilized.

Pursuant to Section 382 and 383 of the Internal Revenue Code, utilization of our net operating losses and credits may be subject to annual limitations in the event of any significant future changes in our

ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization. Previous limitations due to Section 382 and 383 have been reflected in the deferred tax assets as of December 30, 2007.

As of December 30, 2007, we concluded that it is more likely than not that a significant portion of our deferred tax assets will be realized and, accordingly we released a portion of our valuation allowance, approximately $17.1 million of which was recorded as a reduction to the tax provision. In addition, we established current and long term deferred tax assets on the Consolidated Balance Sheets of approximately $26.8 million and $80.1 million, respectively, and decreased the goodwill balances recorded in conjunction with the CyVera and Solexa acquisitions by approximately $2.1 million and $18.4 million, respectively. Based upon the available evidence as of December 30, 2007, we are not able to conclude it is more likely than not certain U.S. and foreign deferred tax assets will be realized. Therefore, we have recorded a valuation allowance of approximately $2.9 million and $25.4 million against certain U.S. and foreign deferred tax assets, respectively.

Comparison of Years Ended December 31, 2006 and January 1, 2006

Our fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended December 31, 2006 and January 1, 2006 were both 52 weeks.

Revenue

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Product revenue	$155,811	$57,752	170%
Service and other revenue	28,775	15,749	83
Total revenue	$184,586	$73,501	151%

Total revenue for the years ended December 31, 2006 and January 1, 2006 was $184.6 million and $73.5 million, respectively. This represents an increase of $111.1 million for 2006, or 151%, compared to 2005.

Product revenue increased to $155.8 million for the year ended December 31, 2006 from $57.8 million for the year ended January 1, 2006. The increase in 2006 resulted primarily from higher consumable and BeadStation sales. Growth in consumable revenue was primarily attributable to the launch and shipment of our whole genome genotyping products, the HumanHap300 and HumanHap550 BeadChips. In addition, growth in consumable revenue can be attributed to the growth in our installed base of BeadArray Readers, which has nearly doubled since January 1, 2006. Consumable products constituted 66% of product revenue for year ended December 31, 2006, compared to 47% in the year ended January 1, 2006. We expect to see continued growth in product revenue, which can be partially attributed to the launch of several new products, as well as the growth of our installed base of instruments.

Service and other revenue increased to $28.8 million for the year ended December 31, 2006 from $15.7 million for the year ended January 1, 2006. The increase in service and other revenue is primarily due to the completion of several significant Infinium and GoldenGate SNP genotyping service contracts. We introduced our Infinium services in early 2006. We expect sales from SNP genotyping services contracts to fluctuate on a yearly and quarterly basis, depending on the mix and number of contracts that are completed. The timing of completion of a SNP genotyping services contract is highly dependent on the customer's schedule for delivering the SNPs and samples to us. This increase in service revenue was partially offset by a decrease in government grants and other research funding of $0.5 million over the prior year due primarily to the completion of several projects funded by grants from the National

Institutes of Health. We do not expect research revenue to be a material component of our revenue going forward.

Cost of Product and Service and Other Revenue

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Cost of product revenue	$51,271	$19,920	157%
Cost of service and other revenue	8,073	3,261	148
Total cost of product and service and other revenue	$59,344	$23,181	156%

Cost of product and service and other revenue represents manufacturing costs incurred in the production process, including component materials, assembly labor and overhead, installation, warranty, packaging and delivery costs, as well as costs associated with performing genotyping services on behalf of our customers. Costs related to research revenue are included in research and development expense. Cost of product revenue increased to $51.3 million for the year ended December 31, 2006, compared to $19.9 million for the year ended January 1, 2006, primarily driven by higher consumable and instrument sales. Cost of product revenue for the year ended December 31, 2006 included stock-based compensation expenses resulting from the adoption of SFAS No. 123R totaling $1.3 million. Gross margin on product revenue increased to 67.1% for the year ended December 31, 2006, compared to 65.5% for the year ended January 1, 2006. The increase in gross margin percentage is primarily due to the impact of favorable product mix, as well as decreased manufacturing costs. A higher percentage of our revenue in 2006 was generated from the sale of consumables, which generally have a more favorable gross margin than other products. The decrease in manufacturing costs is primarily due to reduced raw material costs as a result of more favorable negotiated contracts with our vendors and improvements in our manufacturing processes. This increase in gross margin was offset, in part, by the impact of stock-based compensation charges, which decreased our gross margin by 83 basis points in 2006 compared to 2005.

Cost of service and other revenue increased to $8.1 million for the year ended December 31, 2006, compared to $3.3 million for the year ended January 1, 2006, primarily due to higher service revenue. Cost of service and other revenue for the year ended December 31, 2006 included stock-based compensation expenses resulting from the adoption of SFAS No. 123R totaling $0.2 million. Gross margin on service and other revenue decreased to 71.9% for the year ended December 31, 2006, compared to 79.3% for the year ended January 1, 2006. The decrease is due primarily to a change in the mix of projects, as well as the impact of stock-based compensation charges, the latter having decreased our service and other revenue gross margin by 85 basis points in 2006 compared to 2005.

We expect product mix to continue to affect our future gross margins. However, we expect our market to become increasingly price competitive and our margins may fluctuate from year to year and quarter to quarter.

Research and Development Expenses

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Research and development	$33,373	$27,809	20%

Our research and development expenses consist primarily of salaries and other personnel-related expenses, laboratory supplies and other expenses related to the design, development, testing and enhancement of our products. We expense our research and development expenses as they are incurred.

Research and development expenses increased to $33.4 million for the year ended December 31, 2006, compared to $27.8 million for the year ended January 1, 2006. Research and development expenses for the years ended December 31, 2006 and January 1, 2006 included stock-based compensation expenses primarily resulting from the adoption of SFAS No. 123R totaling $3.9 million and $0.1 million, respectively. Exclusive of these stock-based compensation charges, the increase in research and development expenses for the year ended December 31, 2006 is primarily due to the development of our recently-acquired VeraCode technology purchased in conjunction with our acquisition of CyVera in April 2005. We launched the first products resulting from this acquisition during the first quarter of 2007. Research and development expenses related to the VeraCode technology increased $2.7 million for the year ended December 31, 2006, compared to the year ended January 1, 2006. In addition, costs to support our Oligator technology platform and BeadArray research activities decreased $1.0 million for the year ended December 31, 2006, compared to the year ended January 1, 2006.

We believe a substantial investment in research and development is essential to remaining competitive and expanding into additional markets. Accordingly, we expect our research and development expenses to increase in absolute dollars as we expand our product base and integrate the operations of Solexa into our business.

Selling, General and Administrative Expenses

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Selling, general and administrative	$54,057	$28,158	92%

Our selling, general and administrative expenses consist primarily of personnel costs for sales and marketing, finance, human resources, business development, legal and general management, as well as professional fees, such as expenses for legal and accounting services. Selling, general and administrative expenses increased to $54.1 million for the year ended December 31, 2006, compared to $28.2 million for the year ended January 1, 2006. Selling, general and administrative expenses for the years ended December 31, 2006 and January 1, 2006 included stock-based compensation expenses primarily resulting from the adoption of SFAS No. 123R totaling $8.9 million and $0.2 million, respectively.

Sales and marketing expenses increased $10.6 million during the year ended December 31, 2006, compared to the year ended January 1, 2006. The increase is primarily due to increases of $6.5 million attributable to personnel-related expenses, $3.2 million of stock-based compensation expense and $0.9 million attributable to other non-personnel-related costs, mainly sales and marketing activities for our existing and new products. General and administrative expenses increased $15.3 million during the year ended December 31, 2006, compared to the year ended January 1, 2006, due to increases of $5.5 million of stock-based compensation expense, $5.3 million in outside legal costs related to the Affymetrix litigation, $3.1 million in personnel-related expenses associated with the growth of our business and $1.4 million in outside consulting costs. Outside consulting costs primarily include tax and audit fees and general legal expenses not associated with the Affymetrix litigation.

We expect our selling, general and administrative expenses to increase in absolute dollars as we expand our staff, add sales and marketing infrastructure, incur increased litigation costs and incur additional costs to support the growth in our business.

Interest Income

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Interest income	$5,368	$1,404	282%

Interest income on our cash and cash equivalents and investments was $5.4 million and $1.4 million for the years ended December 31, 2006 and January 1, 2006, respectively. The increase was due to higher average cash balances and higher effective interest rates compared to the prior year.

Interest and Other Expense, Net

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Interest and other expense, net	$(560)	$(668)	(16%)

Interest and other expense, net, consists of interest expense, other income and expenses related to foreign exchange transaction costs and gains and losses on disposals of assets. Interest and other expense, net, decreased to $0.6 million for the year ended January 1, 2006, compared to $0.7 million for the year ended January 2, 2005.

Interest expense was $11,000 for the year ended December 31, 2006, compared to $7,000 for the year ended January 1, 2006. For the years ended December 31, 2006 and January 1, 2006, we recorded approximately $0.4 million in losses due to foreign currency transactions. In addition in 2006, we recorded $0.1 million related to losses on disposal of assets, compared to $0.3 million of losses in 2005.

Provision for Income Taxes

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Provision for income taxes	$2,652	$163	1,527%

The provision for income taxes was approximately $2.7 million in 2006, up from $0.2 million in 2005. In 2006, the provision principally consists of federal and state alternative minimum tax and income tax expense related to foreign operations. In 2005, the provision for income taxes consisted of income tax expense related to foreign operations.

During the year ended December 31, 2006, we utilized approximately $25.9 million and $16.6 million of our federal and state net operating loss carryforwards, respectively, to reduce our federal and state income taxes. As of December 31, 2006, we had net operating loss carryforwards for federal and state tax purposes of approximately $76.4 million and $39.1 million, respectively, which begin to expire in 2022 and 2013, respectively, unless previously utilized. In addition, we also had U.S. federal and state research and development tax credit carryforwards of approximately $6.4 million and $6.3 million respectively, which begin to expire in 2018 and 2019 respectively, unless previously utilized.

Pursuant to Section 382 and 383 of the Internal Revenue Code, utilization of our net operating losses and credits may be subject to annual limitations in the event of any significant future changes in our ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization. Previous limitations due to Section 382 and 383 have been reflected in the deferred tax assets as of December 31, 2006.

Based upon the available evidence as of December 31, 2006, we are not able to conclude it is more likely than not the remaining deferred tax assets in the U.S. will be realized. Therefore, we have recorded a full valuation allowance against the U.S. deferred tax assets of approximately $36.5 million.

Liquidity and Capital Resources

Cashflow

	Year Ended December 30, 2007	Year Ended December 31, 2006	Year Ended January 1, 2006
		(In thousands)	
Net cash provided by (used in) operating activities	$ 56,294	$ 39,000	$(9,008)
Net cash used in investing activities	(67,686)	(160,735)	(1,535)
Net cash provided by financing activities	148,292	109,296	5,963
Effect of foreign currency translation	(345)	3	613
Net increase (decrease) in cash and cash equivalents	$136,555	$ (12,436)	$(3,967)

Historically, our sources of cash have included:

- issuance of equity and debt securities, including cash generated from the exercise of stock options and participation in our Employee Stock Purchase Plan (ESPP);
- cash generated from operations, primarily from the collection of accounts receivable resulting from product sales; and
- interest income.

Our historical cash outflows have primarily been associated with:

- cash used for operating activities such as the purchase and growth of inventory, expansion of our sales and marketing and research and development infrastructure and other working capital needs;
- cash used for our stock repurchases;
- expenditures related to increasing our manufacturing capacity and improving our manufacturing efficiency; and
- interest payments on our debt obligations.

Other factors that impact our cash inflow and outflow include:

- significant increases in our product and services revenue, leading to gross margins greater than 63% in each of the last three fiscal years. As our product sales have increased significantly since 2001, our gross profit and operating income have increased significantly as well, providing us with an increased source of cash to finance the expansion of our operations; and
- fluctuations in our working capital.

As of December 30, 2007, we had cash, cash equivalents and short-term investments of $386.1 million, compared to $130.8 million as of December 31, 2006. We currently invest our funds in U.S. dollar-based short maturity mutual funds, commercial paper, corporate bonds, treasury notes, auction rate securities and municipal bonds. We do not hold securities backed by mortgages. As of December 30, 2007, our short-term investments included $14.7 million of high-grade (AAA rated) auction rate securities issued primarily by municipalities and universities. See Part I Item 1A: "Risk Factors — Negative conditions in the global credit markets may impair the liquidity of a portion of our investment portfolio."

The primary inflows of cash during the year ended December 30, 2007 were approximately $390.3 million from the net proceeds of our convertible debt offering in February 2007, $479.4 million from the sale and maturity of our investments in available-for-sale securities, and $92.4 million generated from the sale of warrants in February 2007. In addition, on January 26, 2007, we completed the merger

with Solexa, which resulted in net cash acquired of $72.1 million. The primary cash outflows during the year ended December 30, 2007 were attributable to the purchase of available-for-sale securities for approximately $598.4 million, the repurchase of an aggregate of 7.4 million shares of our common stock for approximately $251.6 million, as well as approximately $139.0 million for the purchase of a convertible note hedge. These convertible note transactions and our stock repurchase program are discussed in detail below.

On February 16, 2007, we issued $400.0 million principal amount of 0.625% Convertible Senior Notes due 2014 (the Notes). The net proceeds from the offering, after deducting the initial purchasers' discount and offering expenses, were approximately $390.3 million. We used approximately $201.6 million of the net proceeds to purchase approximately 5.8 million shares of our common stock in privately negotiated transactions concurrently with the offering. We used $46.6 million of the net proceeds of this offering to pay the net cost of convertible note hedge and warrant transactions, which are designed to reduce the potential dilution upon conversion of the notes. We are using the balance of the net proceeds for other general corporate purposes, which may include acquisitions and additional repurchases of our common stock. The notes mature on February 15, 2014 and bear interest semi-annually at a rate of 0.625% per year, payable on February 15 and August 15 of each year, beginning on August 15, 2007. In addition, we may in certain circumstances be obligated to pay additional interest. If a "designated event," as defined in the indenture for the notes, occurs, holders of the notes may require us to repurchase all or a portion of their notes for cash at a repurchase price equal to the principal amount of the notes to be repurchased, plus accrued and unpaid interest. In addition, upon conversion of the notes, we must pay the principal portion in cash. The notes will become convertible only in certain circumstances based on conditions relating to the trading price of the notes and our common stock or upon the occurrence of specified corporate events, and we expect the notes to become convertible beginning in the second quarter of 2008 if the trading price of our common stock does not decline from current levels. The notes also will, by their terms, become convertible at any time from, and including, November 15, 2013 through the third scheduled trading day immediately preceding February 15, 2014.

On February 20, 2007, we executed a Rule 10b5-1 trading plan to repurchase up to $75.0 million of our outstanding common stock over a period of six months. We repurchased approximately 1.6 million shares of our common stock under this plan for approximately $50.0 million in cash. As of December 30, 2007, this plan had expired.

Our primary short-term needs for capital, which are subject to change, include expenditures related to:

- the $90.0 million liability recorded at December 30, 2007 for the one-time payment made to Affymetrix on January 25, 2008, in accordance with the settlement agreement entered on January 9, 2008;
- our facilities expansion needs, including costs of leasing additional facilities;
- the acquisition of equipment and other fixed assets for use in our current and future manufacturing and research and development facilities;
- support of our commercialization efforts related to our current and future products, including expansion of our direct sales force and field support resources both in the United States and abroad;
- the continued advancement of research and development efforts; and
- improvements in our manufacturing capacity and efficiency.

Approximately $24.3 million of our net cash generated from operations for the year ended December 30, 2007 was used on capital expenditures, primarily for manufacturing and research and development equipment, furniture, fixtures and computer equipment. We expect that our product revenue and the resulting operating income, as well as the status of each of our new product development programs, will significantly impact our cash management decisions.

We anticipate that our current cash and cash equivalents and income from operations will be sufficient to fund our operating needs for at least the next 12 months. Operating needs include the planned costs to operate our business, including amounts required to fund working capital and capital expenditures. At the present time, we have no material commitments for capital expenditures. Due to expansion of our facilities and manufacturing operations, we anticipate spending approximately $25.0 million in capital expenditures during 2008. Our future capital requirements and the adequacy of our available funds will depend on many factors, including:

- our ability to successfully commercialize our sequencing and VeraCode technologies and to expand our SNP genotyping and sequencing services product lines;
- scientific progress in our research and development programs and the magnitude of those programs;
- competing technological and market developments; and
- the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings.

As a result of the factors listed above, we may require additional funding in the future. Our failure to raise capital on acceptable terms, when needed, could have a material adverse effect on our business.

Off-Balance Sheet Arrangements

We do not participate in any transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (SPEs), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. During the fiscal year ended December 30, 2007, we were not involved in any "off balance sheet arrangements" within the meaning of the rules of the Securities and Exchange Commission.

Contractual Obligations

Contractual obligations represent future cash commitments and liabilities under agreements with third parties, and exclude orders for goods and services entered into in the normal course of business that are not enforceable or legally binding and contingent liabilities for which we cannot reasonably predict future payment. Additionally, the table excludes uncertain tax positions of $21.4 million. The expected timing of payment of the obligations presented below is estimated based on current information. Timing of payments and actual amounts paid may be different depending on changes to agreed-upon terms or amounts for some obligations.

The following chart represents our contractual obligations as of December 30, 2007, aggregated by type (amounts in thousands):

	Payments Due by Period				
Contractual Obligation	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Long-term debt obligations(1)	$416,250	$ 2,500	$ 5,000	$ 5,000	$403,750
Operating leases(2)	120,435	10,329	15,036	15,412	79,658
Other(3)	90,536	90,536	—	—	—
Total	$627,221	$103,365	$20,036	$20,412	$483,408

(1) The "long-term debt obligations" in the above table include the principal amount of our Convertible Senior Notes and interest payments totaling 0.625% per annum. See Note 5 of Notes to Consolidated Financial Statements for further discussion of the terms of the Convertible Senior Notes.

(2) See Note 6 of Notes to Consolidated Financial Statements for discussion of our operating leases.

(3) "Other" in the above table includes amounts owed as a result of our litigation settlements occurring subsequent to December 30, 2007. See Note 8 of Notes to Consolidated Financial Statements for further discussion of the related settlement.

Recent Accounting Pronouncements

Information with respect to recent accounting pronouncements is included in Note 1 of Notes to Consolidated Financial Statements.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk.*

Interest Rate Sensitivity

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. The fair market value of fixed rate securities may be adversely impacted by fluctuations in interest rates while income earned on floating rate securities may decline as a result of decreases in interest rates. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We attempt to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities. We have historically maintained a relatively short average maturity for our investment portfolio, and we believe a hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of our interest sensitive financial instruments.

Market Price Sensitive Instruments

In order to reduce the potential equity dilution, we entered into a convertible note hedge contract entitling us to purchase a maximum of 11,451,480 shares of our common stock (subject to adjustment) at an initial strike price of $43.66 per share (subject to adjustment). Upon conversion of our Convertible Senior Notes, this hedge contract is expected to reduce the equity dilution if the daily volume-weighted average price per share of our commons stock exceeds the strike price of the hedge. We also entered into warrant transactions with the counterparties of the convertible note hedge transactions entitling them to acquire a maximum of 18,322,320 shares of our common stock (subject to adjustment) at an initial strike price of $62.87 per share (subject to adjustment). The warrant transactions could have a dilutive effect on our earnings per share to the extent that the price of our common stock during the measurement period at maturity of the warrants exceeds the strike price of the warrants. We did not hold any material derivative financial instruments for the year ended December 31, 2006.

Foreign Currency Exchange Risk

Although most of our revenue is realized in U.S. dollars, some portions of our revenue are realized in foreign currencies. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. The functional currencies of our subsidiaries are their respective local currencies. Accordingly, the accounts of these operations are translated from the local currency to the U.S. dollar using the current exchange rate in effect at the balance sheet date for the balance sheet accounts, and using the average exchange rate during the period for revenue and expense accounts. The effects of translation are recorded in accumulated other comprehensive income as a separate component of stockholders' equity.

Item 8. *Financial Statements and Supplementary Data.*

The Report of Independent Registered Public Accounting Firm, Financial Statements and Notes to Financial Statements begin on page F-1 immediately following the signature page and are incorporated herein by reference.

Exhibit 221

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 28, 2008

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .

Commission file number: 000-30361

Illumina, Inc.

(Exact name of Registrant as Specified in Its Charter)

Delaware	**33-0804655**
(State or other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
9885 Towne Centre Drive, San Diego, California	**92121**
(Address of Principal Executive Offices)	*(zip code)*

Registrant's telephone number, including area code: (858) 202-4500

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common stock, $0.01 par value	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of February 2, 2009, there were 121,077,875 shares (excluding 17,927,983 shares held in treasury) of the Registrant's Common Stock outstanding. The aggregate market value of the Common Stock held by non-affiliates of the Registrant as of June 27, 2008 (the last business day of the Registrant's most recently completed second fiscal quarter), based on the closing price for the Common Stock on The NASDAQ Global Select Market on that date, was $4,849,118,890. This amount excludes an aggregate of 2,556,098 shares of Common Stock held by officers and directors and each person known by the Registrant to own 10% or more of the outstanding Common Stock. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, directly or indirectly, to direct or cause the direction of the management or policies of the Registrant, or that the Registrant is controlled by or under common control with such person.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for the annual meeting of stockholders expected to be held on May 8, 2009 are incorporated by reference into Items 10 through 14 of Part III of this Report.

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 28, 2008	Year Ended December 30, 2007	Year Ended December 31, 2006
	(In thousands, except per share amounts)		
Revenue			
Product revenue	$532,390	$ 326,699	$155,811
Service and other revenue	40,835	40,100	28,775
Total revenue	573,225	366,799	184,586
Costs and expenses:			
Cost of product revenue (excluding impairment of manufacturing equipment and amortization of intangible assets)	192,868	119,991	51,271
Cost of service and other revenue	12,756	12,445	8,073
Research and development	99,963	73,943	33,373
Selling, general and administrative	148,014	101,256	54,057
Impairment of manufacturing equipment	4,069	—	—
Amortization of intangible assets	10,438	2,429	—
Acquired in-process research and development	24,660	303,400	—
Litigation settlements	—	54,536	—
Total costs and expenses	492,768	668,000	146,774
Income (loss) from operations	80,457	(301,201)	37,812
Interest income	12,519	16,026	5,368
Interest and other expense, net	(2,070)	(3,610)	(560)
Income (loss) before income taxes	90,906	(288,785)	42,620
Provision (benefit) for income taxes	40,429	(10,426)	2,652
Net income (loss)	$ 50,477	$(278,359)	$ 39,968
Net income (loss) per basic share	$ 0.43	$ (2.57)	$ 0.45
Net income (loss) per diluted share	$ 0.38	$ (2.57)	$ 0.41
Shares used in calculating basic net income (loss) per share	116,855	108,308	89,002
Shares used in calculating diluted net income (loss) per share	133,607	108,308	97,508

See accompanying notes to consolidated financial statements

1. Organization and Summary of Significant Accounting Policies

Organization and Business

Illumina, Inc. (the Company) was incorporated on April 28, 1998. The Company is a leading developer, manufacturer and marketer of integrated systems for the large-scale analysis of genetic variation and biological function. Using the Company's proprietary technologies, the Company provides a comprehensive line of products and services that currently serve the sequencing, genotyping and gene expression markets. The Company also expects to enter the market for molecular diagnostics. The Company's customers include leading genomic research centers, pharmaceutical companies, academic institutions, clinical research organizations and biotechnology companies. The Company's tools provide researchers around the world with the performance, throughput, cost effectiveness and flexibility necessary to perform the billions of genetic tests needed to extract valuable medical information from advances in genomics and proteomics. The Company believes this information will enable researchers to correlate genetic variation and biological function, which will enhance drug discovery and clinical research, allow diseases to be detected earlier and permit better choices of drugs for individual patients.

Basis of Presentation

The consolidated financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) and include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Fiscal Year

The Company's fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended December 28, 2008, December 30, 2007 and December 31, 2006 were all 52 weeks.

Use of Estimates

The preparation of financial statements requires that management make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Cash Equivalents and Investments

Cash equivalents are comprised of short-term, highly liquid investments with maturities of 90 days or less from the date of purchase.

Short-term investments consist of U.S. Treasury and U.S. government agency securities, municipal notes, corporate notes and bonds and commercial paper. All short-term investments have been designated as available-for-sale securities recorded at estimated fair value with the related unrealized gains and losses included in accumulated other comprehensive income, a component of stockholders' equity. The Company accounts for investments in debt and equity instruments in accordance with SFAS, No. 115, *Accounting for Certain Investments in Debt and Equity Securities* and FASB Staff Position, or FSP, No. 115-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, or FSP 115-1. Management determines the appropriate classification of such securities at the time of purchase and reevaluates such classification as of each balance sheet date. The Company follows the guidance provided by FSP 115-1, to assess whether investments with unrealized loss positions are other than temporarily impaired. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in Interest and other expense, net in the consolidated statements of operations.

Long-term investments are comprised of the Company's auction rate securities and a put option related to the Company's settlement agreement with UBS that gives the Company the right to sell its auction rate securities to UBS at par value at a future date. Both the auction rate securities and the put option are recorded at estimated fair value and unrealized gains and losses, if any, are recognized in Interest income on the consolidated statements of operations. Historically, the Company's auction rate securities were classified as available-for-sale securities, however, during the fourth quarter of fiscal 2008, the Company reclassified the auction rate securities from available-for-sale to trading securities. See Note 4 for further detailed discussion.

Fair Value of Financial Instruments

The carrying amounts of financial instruments such as cash equivalents, foreign cash accounts, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued expenses and other current liabilities approximate the related fair values due to the short-term maturities of these instruments. The estimated fair value of the convertible senior notes is determined by using available market information as of the latest trading date prior to the Company's fiscal year-end provided by a third party financial institution. The fair value of the Company's convertible notes at December 28, 2008 and December 30, 2007 are $473.0 million and $596.3 million, respectively.

Accounts Receivable

Trade accounts receivable are recorded at the net invoice value and are not interest bearing. The Company considers receivables past due based on the contractual payment terms. The Company reviews its exposure to amounts receivable and reserves specific amounts if collectibility is no longer reasonably assured. The Company also reserves a percentage of its trade receivable balance based on collection history and current economic trends that might impact the level of future credit losses. The Company re-evaluates such reserves on a regular basis and adjusts its reserves as needed.

Concentrations of Risk

The Company operates in markets that are highly competitive and rapidly changing. Significant technological changes, shifting customer needs, the emergence of competitive products or services with new capabilities and other factors could negatively impact the Company's operating results.

The Company is also subject to risks related to its financial instruments including its cash and cash equivalents, investments and accounts receivable. Most of the Company's cash and cash equivalents as of December 28, 2008 were deposited with financial institutions in the United States and the Company's investment policy restricts the amount of credit exposure to any one issuer to 5% of the portfolio at the time of purchase and to any one industry sector, as defined by Bloomberg classifications, to 25% of the portfolio at the time of purchase. There is no limit to the percentage of the portfolio that may be maintained in securities issued by the U.S government and money market funds. The Company has historically not experienced significant credit losses from investments and accounts receivable. The Company performs a regular review of customer activity and associated credit risks.

The Company's products require customized components that currently are available from a limited number of sources. The Company obtains certain key components included in its products from single vendors.

Shipments to customers outside the United States comprised 51%, 43% and 44% of the Company's revenue for the years ended December 28, 2008, December 30, 2007 and December 31, 2006, respectively. Customers outside the United States represented 61% and 46% of the Company's net accounts receivable balance as of December 28, 2008 and December 30, 2007, respectively. Sales to territories outside of the United States are generally denominated in U.S. dollars. International sales entail a variety of risks, including

currency exchange fluctuations, longer payment cycles and greater difficulty in accounts receivable collection. The Company is also subject to general geopolitical risks, such as political, social and economic instability and changes in diplomatic and trade relations. The risks of international sales are mitigated in part by the extent to which sales are geographically distributed.

Inventories

Inventories are stated at the lower of cost (on a first in, first out basis) or market. Inventory includes raw materials and finished goods that may be used in the research and development process and such items are expensed as consumed or expired. Provisions for slow moving, excess and obsolete inventories are provided based on product life cycle and development plans, product expiration and quality issues, historical experience and inventory levels.

Property and Equipment

Property and equipment are stated at cost, subject to review of impairment, and depreciated over the estimated useful lives of the assets (generally three to seven years) using the straight-line method. Amortization of leasehold improvements is computed over the shorter of the lease term or the estimated useful life of the related assets. Maintenance and repairs are charged to operations as incurred. When assets are sold, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in operating expense.

Goodwill, Intangible Assets and Other Long-Lived Assets

Goodwill represents the excess of cost over fair value of net assets acquired. Intangible assets include acquired technology, customer relationships, other license agreements and licensed technology (capitalized as part of the Affymetrix litigation). The cost of identified intangible assets is amortized on a straight-line basis over periods ranging from three to ten years unless the expected benefit pattern is declining, in which case an accelerated method is used.

The Company regularly performs reviews to determine if the carrying values of the long-lived assets are impaired. In accordance with SFAS 142, *Goodwill and Other Intangible Assets,* goodwill and other intangible assets that have indefinite useful lives are reviewed for impairment at least annually during the second fiscal quarter, or more frequently if an event occurs indicating the potential for impairment. The Company performed its annual impairment test of goodwill as of May 30, 2008, utilizing a test that begins with an estimate of the fair value of the reporting unit or intangible asset, noting no impairment and has determined there has been no impairment indicators for goodwill through December 28, 2008. A review of intangible assets that have finite useful lives and other long-lived assets is performed when an event occurs indicating the potential for impairment in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. If indicators of impairment exist, the Company assesses the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows. If impairment is indicated, the Company measures the future discounted cash flows associated with the use of the asset and adjusts the value of the asset accordingly. Factors that would necessitate an impairment assessment include a significant decline in the Company's stock price and market capitalization compared to its net book value, significant changes in the ability of a particular asset to generate positive cash flows and significant changes in the Company's strategic business objectives and utilization of the asset.

Reserve for Product Warranties

The Company generally provides a one-year warranty on instrumentation. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses associated with system sales. This expense is recorded as a component of cost of revenue.

Revenue Recognition

The Company's revenue is generated primarily from the sale of products and services. Product revenue consists of sales of arrays, reagents, flow cells, instrumentation, oligonucleotides (oligos) and associated freight charges. Service and other revenue consists of revenue received for performing genotyping and sequencing services, extended warranty sales and amounts earned under research agreements with government grants, which are recognized in the period during which the related costs are incurred.

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable and collectibility is reasonably assured. In instances where final acceptance of the product or system is required, revenue is deferred until all the acceptance criteria have been met. All revenue is recorded net of any applicable allowances for returns or discounts.

Revenue for product sales is recognized generally upon shipment and transfer of title to the customer, provided no significant obligations remain and collection of the receivables is reasonably assured. Revenue from the sale of instrumentation is recognized when earned, which is generally upon shipment. Revenue for genotyping and sequencing services is recognized when earned, which is generally at the time the genotyping or sequencing analysis data is delivered to the customer.

In order to assess whether the price is fixed and determinable, the Company ensures there are no refund rights. If payment terms are based on future performance, the Company defers revenue recognition until the price becomes fixed and determinable. The Company assesses collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If the Company determines that collection of a payment is not reasonably assured, revenue recognition is deferred until the time collection becomes reasonably assured, which is generally upon receipt of payment.

Sales of instrumentation generally include a standard one-year warranty. The Company also sells separately priced maintenance (extended warranty) contracts, which are generally for one or two years, upon the expiration of the initial warranty. Revenue for extended warranty sales is recognized ratably over the term of the extended warranty period. Reserves are provided for estimated product warranty expenses at the time the associated revenue is recognized. If the Company were to experience an increase in warranty claims or if costs of servicing its warrantied products were greater than its estimates, gross margins could be adversely affected.

While the majority of its sales agreements contain standard terms and conditions, the Company does enter into agreements that contain multiple elements or non-standard terms and conditions. Emerging Issues Task Force (EITF) No. 00-21, *Revenue Arrangements with Multiple Deliverables,* provides guidance on accounting for arrangements that involve the delivery or performance of multiple products, services, or rights to use assets within contractually binding arrangements. For arrangements with multiple elements, revenue recognition is based on the individual units of accounting determined to exist in the arrangement. A delivered item is considered a separate unit of accounting when the delivered item has value to the customer on a stand-alone basis and there is objective and reliable evidence of the fair value of the undelivered items. Items are considered to have stand-alone value when they are sold separately by any vendor or when the customer could resell the item on a stand-alone basis. The fair value of an item is generally the price charged for the product, if the item is regularly sold on a stand-alone basis. When objective and reliable evidence of fair value exists for all units of accounting in an arrangement, the arrangement consideration is generally allocated to each unit

of accounting based upon its relative fair value. In those instances when objective and reliable evidence of fair value exists for the undelivered items but not for the delivered items, the residual method is used to allocate the arrangement consideration. Under the residual method, the amount of arrangement consideration allocated to the delivered items equals the total arrangement consideration less the aggregate fair value of the undelivered items. When the Company is unable to establish stand-alone value for delivered items or when fair value of undelivered items has not been established, revenue is deferred until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements. The Company recognizes revenue for delivered elements only when it determines that the fair values of undelivered elements are known and there are no uncertainties regarding customer acceptance.

Shipping and Handling Expenses

Shipping and handling expenses are included in cost of product revenue and totaled $3.7 million, $2.2 million and $1.8 million for the years ended December 28, 2008, December 30, 2007 and December 31, 2006, respectively.

Research and Development

Research and development expenses consist of costs incurred for internal and grant-sponsored research and development. Research and development expenses include salaries, contractor fees, facilities costs, utilities and allocations of benefits. Expenditures relating to research and development are expensed in the period incurred.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were $3.4 million, $2.8 million and $1.9 million for the years ended December 28, 2008, December 30, 2007 and December 31, 2006, respectively.

Income Taxes

In accordance with SFAS No. 109, *Accounting for Income Taxes*, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and credit carryforwards. Deferred tax assets and liabilities are determined using the enacted tax rates in effect for the years in which those tax assets are expected to be realized. A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction-by-jurisdiction basis, and includes a review of all available positive and negative evidence. Factors reviewed include projections of pre-tax book income over the foreseeable future, determination of cumulative pre-tax book income after permanent differences, history of earnings, and reliability of forecasting. As of December 28, 2008, the Company maintained a valuation allowance only against certain U.S. and foreign deferred tax assets that the Company concluded did not meet the "more likely than not" threshold required under SFAS No. 109.

Due to the adoption of SFAS No. 123R, the Company recognizes excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company.

Effective January 1, 2007, the Company adopted FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in tax positions. FIN No. 48 requires recognition of the impact of a tax position in the Company's financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense.

Functional Currency

Historically, the Company identified the local currency as the functional currency in each of its foreign subsidiaries, and the effects of translation were recorded as other comprehensive income (loss). During the third quarter of 2008, the Company reorganized its international structure to execute a more efficient relationship between product development, product manufacturing and sales. The reorganization increased the foreign subsidiaries' anticipated dependence on the U.S. entity for management decisions, financial support, production assets and inventory, thereby making the foreign subsidiaries more of a direct and integral component of the U.S. entity's operations. As a result, the Company reassessed the primary economic environment of its foreign subsidiaries and determined the subsidiaries are more U.S. dollar based, resulting in a U.S. dollar functional currency determination. As a result of this change, beginning in the third quarter of 2008, the Company remeasures its foreign subsidiaries' assets and liabilities and income and expense accounts related to nonmonetary assets and liabilities to the U.S. dollar and records the net gains or losses resulting from remeasurement in its consolidated statements of operations within interest and other expense, net.

Stock-Based Compensation

The Company accounts for share-based compensation using the fair value recognition provisions of SFAS 123(R), *Share-Based Payment* using the Black-Scholes-Merton option-pricing model to estimate the fair value of stock options granted and stock purchases under the Employee Stock Purchase Plan (ESPP). This model incorporates various assumptions including volatility, expected life, and interest rates. Historically, the Company used an expected stock-price volatility assumption that was primarily based on historical realized volatility of the underlying stock during a period of time. Beginning the third quarter of 2007, volatility was determined by equally weighing the historical and implied volatility of the Company's common stock. The historical volatility of the Company's common stock over the most recent period is generally commensurate with the estimated expected life of the Company's stock options, adjusted for the impact of unusual fluctuations not reasonably expected to recur and other relevant factors. The implied volatility is calculated from the implied market volatility of exchange-traded call options on the Company's common stock. The expected life of an award is based on historical experience and on the terms and conditions of the stock awards granted to employees.

The assumptions used for the specified reporting periods and the resulting estimates of weighted-average fair value per share of options granted and for stock purchases under the ESPP during those periods are as follows:

	Year Ended December 28, 2008	Year Ended December 30, 2007	Year Ended December 31, 2006
Interest rate — stock options	2.31 - 3.52%	3.68 - 4.90%	4.73%
Interest rate — stock purchases	1.88 - 4.71%	4.71 - 4.86%	4.08 - 4.85%
Volatility — stock options	51 - 65%	55 - 70%	76%
Volatility — stock purchases	53 - 69%	69 - 76%	76 - 90%
Expected life — stock options	5 - 6 years	6 years	6 years
Expected life — stock purchases	6 - 12 months	6 - 12 months	6 - 12 months
Expected dividend yield	0%	0%	0%
Weighted average fair value per share of options granted	$18.31	$12.86	$9.44
Weighted average fair value per share of employee stock purchases	$11.45	$7.33	$2.38

The fair value of restricted stock units granted during the years ended December 28, 2008 and December 30, 2007 was based on the market price of our common stock on the date of grant. No restricted stock units were granted during the year ended December 31, 2006.

As of December 28, 2008, $152.8 million of total unrecognized compensation cost related to stock options, restricted stock and ESPP shares issued to date is expected to be recognized over a weighted-average period of approximately 1.9 years.

Total share-based compensation expense for employee stock options and stock purchases consists of the following (in thousands, except per share data):

	Year Ended December 28, 2008	Year Ended December 30, 2007	Year Ended December 31, 2006
Cost of product revenue	$ 4,710	$ 4,045	$ 1,289
Cost of service and other revenue	400	279	235
Research and development	14,086	10,016	3,891
Selling, general and administrative	28,492	19,406	8,889
Share-based compensation expense before taxes	47,688	33,746	14,304
Related income tax benefits	(15,844)	(11,005)	—
Share-based compensation expense, net of taxes	$ 31,844	$ 22,741	$14,304
Net share-based compensation expense per share of common stock:			
Basic	$ 0.27	$ 0.21	$ 0.16
Diluted	$ 0.24	$ 0.21	$ 0.15

Net Income (Loss) per Share

On July 22, 2008, the Company announced a two-for-one stock split in the form of a 100% stock dividend with a record date of September 10, 2008 and a distribution date of September 22, 2008. Share and per share amounts have been restated to reflect the stock split for all periods presented.

Basic and diluted net income (loss) per share of common stock is presented in conformity with SFAS No. 128, *Earnings per Share,* for all periods presented. In accordance with SFAS No. 128, basic net income (loss) per share is computed using the weighted-average number of shares of common stock outstanding during the period, less shares held in treasury and shares subject to repurchase. Diluted net income (loss) per share is computed using the weighted average number of common and dilutive common equivalent shares from the Company's Convertible Senior Notes, equity awards, warrants sold in connection with the Convertible Senior Notes and warrants assumed in the acquisition of Solexa, Inc. (Solexa) using the treasury stock method. The following table presents the calculation of weighted-average shares used to calculate basic and diluted net income (loss) per share (in thousands):

	Year Ended December 28, 2008	Year Ended December 30, 2007	Year Ended December 31, 2006
Weighted-average shares outstanding	116,855	108,328	89,074
Less: Weighted-average shares of common stock subject to repurchase	—	(20)	(72)
Weighted-average shares used in calculating basic net income (loss) per share	116,855	108,308	89,002
Plus: Effect of dilutive Convertible Senior Notes	6,653	—	—
Plus: Effect of dilutive equity awards	5,373	—	8,506
Plus: Effect of dilutive warrants sold in connection with the Convertible Senior Notes	2,487	—	—
Plus: Effect of dilutive warrants assumed in the acquisition of Solexa	2,239	—	—
Weighted-average shares used in calculating diluted net income (loss) per share	133,607	108,308	97,508
Weighted average shares excluded from calculation due to anti-dilutive effect	370	42,882	401

Comprehensive Income

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on the Company's available-for-sale securities and foreign currency translation adjustments. The Company has disclosed comprehensive income as a component of stockholders' equity.

The components of accumulated other comprehensive income are as follows (in thousands):

	December 28, 2008	December 30, 2007
Foreign currency translation adjustments	$2,103	$1,183
Unrealized gain on available-for-sale securities, net of deferred tax	303	164
Total other comprehensive income	$2,406	$1,347

Recent Accounting Pronouncements

Adopted Accounting Pronouncements

During fiscal 2008, the Company adopted SFAS No. 157, "*Fair Value Measurements*". In February 2008, the FASB issued Staff Position No. FSP 157-2, "*Effective Date of FASB Statement No. 157*" (FSP 157-2), which provides a one year deferral of the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, the Company has adopted the provisions of SFAS No. 157 with respect to its financial assets and liabilities only. The adoption of this statement did not have a material impact on the Company's consolidated statements of operations or financial condition. On October 10, 2008, the FASB issued FSP No. 157-3, "*Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*" (FSP 157-3) that clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial assets is not active. FSP 157-3 is effective for all periods presented in accordance with SFAS No. 157. The Company considered the additional guidance with respect to the valuation of its financial assets and liabilities and their corresponding designation within the fair value hierarchy. All short-term investments were valued using quoted prices in active markets or Level 1 hierarchical inputs. Long-term investments were valued using Level 3 hierarchical inputs due to the lack of trading in the secondary market of these instruments. Refer to Notes 3 and 4.

During fiscal 2008, the Company adopted SFAS No. 159 "*The Fair Value Option for Financial Assets and Financial Liabilities*". SFAS No. 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for specified financial assets and liabilities on a contract-by-contract basis. The objective of the guidance is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The adoption of SFAS No. 159 impacted the accounting for the put option recorded as a result of the signed settlement agreement with UBS AG (UBS) in November 2008. Refer to Note 4.

New Accounting Pronouncements

SFAS No. 141(R), *Business Combinations*, was issued in December of 2007. SFAS No. 141(R) establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. SFAS No. 141(R) also provides guidance for recognizing and measuring the goodwill acquired in the business combination and sets forth what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact the adoption of this pronouncement will have on the Company's consolidated financial statements.

SFAS No. 160, *Interests in Consolidated Financial Statements — an amendment of ARB No. 51,* which impacts the accounting for minority interest in the consolidated financial statements of filers, was also issued in December 2007. The statement requires the reclassification of minority interest to the equity section of the balance sheet and the results from operations attributed to minority interest to be included in net income. The related minority interest impact on earnings would then be disclosed in the summary of other comprehensive income. The statement is applicable for all fiscal years beginning on or after December 15, 2008 and earlier adoption is prohibited. The adoption of this standard will require prospective treatment. The Company is currently evaluating the impact, if any, the adoption of this pronouncement will have on the Company's consolidated financial statements.

In December 2007 the Financial Accounting Standards Board (FASB) ratified EITF Issue 07-1, *Accounting for Collaborative Arrangements*. EITF Issue 07-1 focuses on defining a collaborative arrangement as well as the accounting for transactions between participants in a collaborative arrangement and between the participants in the arrangement and third parties. The EITF concluded that both types of transactions should be reported in each participant's respective income statement. EITF Issue 07-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and should be applied retrospectively to all prior periods presented for all collaborative arrangements existing as of the effective date. The Company is currently evaluating the impact, if any, the adoption of this pronouncement will have on the Company's consolidated financial statements.

In May 2008, the FASB issued FASB Staff Position (FSP) Accounting Principles Board Opinions (APB) 14-1, *Accounting for Convertible Debt Instruments that May be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1 or the FSP) that significantly impacts the accounting for convertible debt. The FSP requires issuers of convertible debt that may be settled fully or partially in cash upon conversion to account separately for the liability and equity components of the convertible debt. The liability component is measured so that the effective interest expense associated with the convertible debt reflects the issuer's borrowing rate at the date of issuance for similar debt instruments without the conversion feature. This FSP applies to our Convertible Senior Notes and will be effective for us beginning on December 29, 2009. This FSP will be applied retrospectively to all periods that will be presented in our consolidated financial statements beginning after December 29, 2009. Upon adoption, we will retrospectively record a decrease in the book value of our 0.625% Convertible Senior Notes of approximately $150.0 million as of December 28, 2008, an increase in additional paid-in capital and a cumulative effect of a change in accounting principles in our consolidated financial statements, and we will begin recording an additional non-cash interest expense ranging from approximately $20.0 million to 30.0 million per year. The additional interest expense, net of taxes, will reduce net income by a range of approximately $13.0 million to $20.0 million per year. We will continue to record this additional interest expense over the expected life of the debt. These amounts represent management's best estimates of the effects the adoption of this pronouncement will have on the Company's consolidated financial statements, however actual amounts may vary significantly from our current estimate.

In October 2008, the FASB issued FASB FSP SFAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. The FSP clarifies the application of FASB Statement No. 157, *Fair Value Measurements*, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The FSP is effective upon issuance, including for prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application should be accounted for as a change in accounting estimate following the guidance in FASB Statement No. 154, *Accounting Changes and Error Corrections*. However, the disclosure provisions in Statement 154 for a change in accounting estimate are not required for revisions resulting from a change in valuation technique or its application. The Company believes the impact of this pronouncement on the Company's consolidated financial statements to be immaterial.

2. Acquisitions

Avantome, Inc.

On August 1, 2008, the Company completed its acquisition of Avantome, Inc. (Avantome), a privately-held Delaware corporation. As consideration for the acquisition, the Company paid $25.8 million in cash, including transaction costs, and may pay up to an additional $35.0 million in contingent cash consideration based on the achievement of certain milestones. The Company assumed $1.1 million in net assets, and recorded a charge of $24.7 million for purchased in-process research and development (IPR&D) primarily associated with the development of Avantome's low-cost, long read-length sequencing technology. The amount

allocated to IPR&D was expensed upon acquisition as it was determined that the underlying project had not reached technological feasibility and had no alternative future use. The Company has assessed the contingent consideration payable in accordance with the provisions of SFAS No. 141, *Business Combinations*, and EITF 95-8, *Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination.* Contingent consideration of $11.0 million will be recorded as compensation expense over a three-year period as this consideration is earned by the former primary shareholders of Avantome contingent upon their employment with the Company for three years. The remaining contingent consideration of $24.0 million will be recorded as additional purchase price if and when certain milestones are achieved or the amount due is determinable beyond a reasonable doubt.

The results of Avantome's operations have been included in the Company's consolidated financial statements since the acquisition date of August 1, 2008. Pro forma results of operations have not been presented because the effects of the acquisition were not material.

Solexa, Inc.

On January 26, 2007, the Company completed its acquisition of Solexa, a Delaware corporation, in a stock-for-stock merger transaction. The Company issued 26.2 million shares of its common stock as consideration for this merger.

The purchase price of the acquisition is as follows (in thousands):

Fair market value of securities issued	$527,067
Fair market value of change of control bonuses and related taxes	8,182
Transaction costs not included in Solexa net tangible assets acquired	8,138
Fair market value of vested stock options, warrants and restricted stock assumed	75,334
Total purchase price	$618,721

Based on the estimated fair values at the acquisition date, the Company allocated $303.4 million to IPR&D, $62.2 million to tangible assets acquired and liabilities assumed and $24.4 million to intangible assets. The remaining excess of the purchase price over the fair value of net assets acquired of $228.7 million was allocated to goodwill.

The results of Solexa's operations have been included in the Company's consolidated financial statements since the acquisition date of January 26, 2007. The following unaudited pro forma information shows the results of the Company's operations for the specified reporting periods as though the acquisition had occurred as of the beginning of that period (in thousands, except per share data):

	Year Ended December 30, 2007	Year Ended December 31, 2006
Revenue	$366,854	$187,103
Net income (loss)	$ 17,388	$ (38,957)
Net income (loss) per share, basic	$ 0.16	$ (0.34)
Net income (loss) per share, diluted	$ 0.15	$ (0.34)

The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the actual results of operations had the acquisition taken place as of the beginning of the period presented, or the results that may occur in the future. The pro forma results exclude the $303.4 million non-cash acquired IPR&D charge recorded upon the closing of the acquisition during the first quarter of 2007.

3. Balance Sheet Account Details

The following is a summary of short-term investments (in thousands):

	December 28, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government agencies	$218,964	$1,544	$ —	$220,508
Corporate debt securities	92,301	547	(305)	92,543
Total	$311,265	$2,091	$(305)	$313,051

	December 30, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government agencies	$ 42,648	$108	$ —	$ 42,756
Debt securities issued by the states of the United States and political subdivisions of the states	14,675	—	—	14,675
Corporate debt securities	153,547	252	(89)	153,710
Total	$210,870	$360	$(89)	$211,141

Gross realized losses on sales of available-for-sale securities were immaterial for the years ended December 28, 2008, December 30, 2007 and December 31, 2006. Gross realized gains on sales of available-for-sale securities totaled $0.6 million for the year ended December 28, 2008 and were immaterial for the years ended December 30, 2007 and December 31, 2006. As of December 28, 2008, all of the Company's investments in a gross unrealized loss position had been in such position for less than twelve months. Impairments are not considered other than temporary as the Company has the intent and ability to hold these investments until maturity.

Contractual maturities of short-term investments at December 28, 2008 were as follows (in thousands):

	Estimated Fair Value
Due within one year	$204,774
After one but within five years	108,277
Total	$313,051

Accounts receivable consist of the following (in thousands):

	December 28, 2008	December 30, 2007
Accounts receivable from product and service sales	$132,564	$82,144
Other receivables	1,840	1,515
	134,404	83,659
Allowance for doubtful accounts	(1,138)	(540)
Total	$133,266	$83,119

Inventory, net, consists of the following (in thousands):

	December 28, 2008	December 30, 2007
Raw materials	$32,501	$27,098
Work in process	34,063	20,321
Finished goods	6,867	6,561
Total	$73,431	$53,980

Property and equipment consist of the following (in thousands):

	December 28, 2008	December 30, 2007
Leasehold improvements	$ 26,637	$ 4,531
Manufacturing and laboratory equipment	83,317	50,384
Computer equipment and software	27,490	18,772
Furniture and fixtures	4,167	3,691
	141,611	77,378
Accumulated depreciation and amortization	(52,175)	(31,104)
Total	$ 89,436	$ 46,274

Depreciation expense was $17.3 million, $11.5 million and $6.0 million for the years ended December 28, 2008, December 30, 2007 and December 31, 2006, respectively.

Accrued liabilities consist of the following (in thousands):

	December 28, 2008	December 30, 2007
Compensation	$30,330	$17,410
Short-term deferred revenue	15,862	7,541
Taxes	9,456	8,298
Reserve for product warranties	8,203	3,716
Customer deposits	6,583	5,266
Accrued royalties	2,695	1,867
Legal and other professional fees	1,708	4,276
Other	5,518	2,478
Total	$80,355	$50,852

4. Long-term Investments

The Company has $55.9 million (at cost) in auction rate securities issued primarily by municipalities and universities. The auction rate securities are held in a brokerage account with UBS. These securities are debt instruments with a long-term maturity and with an interest rate that is reset in short intervals through auctions. The Company's entire auction rate portfolio is currently rated AAA or AA by a rating agency.

The markets for auction rate securities effectively ceased when the vast majority of auctions failed in February 2008, preventing investors from selling their auction rate securities. As of December 28, 2008, the securities continued to fail auction and remained illiquid. As a result, the Company recorded an unrealized loss of $8.7 million for the year ended December 28, 2008, resulting in a reduction to the fair value of the

Company's auction rate securities to $47.2 million. This unrealized loss was determined in accordance with SFAS No. 157, *Fair Value Measurements*.

As a basis for considering market participant assumptions in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels including the following:

- *Level 1* — Quoted prices in active markets for identical assets or liabilities.
- *Level 2* — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- *Level 3* — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value hierarchy gives the highest priority to Level 1 and the lowest priority to Level 3. In determining the fair value of the Company's auction rate securities, the Company considered trades in the secondary market. However, due to the recent auction failures of the auction rate securities in the marketplace and the lack of trading in the secondary market of these instruments, there was insufficient observable auction rate security market information available to directly determine the fair value of the Company's investments. As a result, the value of these auction rate securities and resulting unrealized loss was determined using Level 3 hierarchical inputs. These inputs include management's assumptions of pricing by market participants, including assumptions about risk. In accordance with SFAS No. 157, the Company used the concepts of fair value based on estimated discounted future cash flows of interest income over a projected five year period reflective of the length of time until the Company's securities are expected to become liquid or potentially get repurchased. In preparing this model, the Company used historical data of the rates upon which a majority of the auction rate securities' contractual rates were based, such as the LIBOR and average trailing twelve-month 90-day Treasury interest rate spreads, to estimate future interest rates. The Company also considered the discount factors, taking into account the credit ratings of the auction rate securities, using a discount rate of 5%. The Company obtained information from multiple sources, including UBS, to determine a reasonable range of assumptions to use in valuing the auction rate securities. The Company's model was corroborated by a separate comparable cash flow analysis prepared by UBS. To understand the sensitivity of the Company's valuation, the liquidity factor and estimated remaining life was varied. Variations in those results were evaluated and it was determined the factors and valuation method chosen were reasonable and representative of the Company's auction rate security portfolio.

The Company classified these securities as long-term assets since the Company believes it may not be able to liquidate its investments without significant loss within the next year. As of December 30, 2007, these securities were classified as short-term since the failures of these auctions did not occur until February 2008.

As a result of the auction rate failures, various regulatory agencies initiated investigations into the sales and marketing practices of several banks and broker-dealers, including UBS, which sold auction rate securities, alleging violations of federal and state laws. Along with several other broker-dealers, UBS subsequently reached a settlement with the federal and state regulators that required them to repurchase auction rate securities from certain investors at par at some future date. In November 2008 the Company signed a settlement agreement to sell its auction rate securities at par value to UBS during the period of June 30, 2010 through July 2, 2012 (the Settlement). In accepting the Settlement, the Company released UBS from any claims relating to the marketing and sale of auction rate securities. Although the Company expects to sell its auction rates securities under the Settlement, if the Settlement is not exercised before July 2, 2012, it will expire and UBS will have no further rights or obligation to buy the Company's auction rate securities. In lieu of the acceptance of the Settlement, the auction rate securities will continue to accrue interest as

determined by the auction process or the terms outlined in the prospectus of the auction rate securities if the auction process fails. In addition to offering to repurchase the Company's auction rate securities, as part of the Settlement, UBS has agreed to provide the Company with a "no net cost" loan up to 75% of the par value of the auction rate securities until June 30, 2010. Per the terms of the Settlement, the interest rate on the loan will approximate the weighted average interest or dividend rate payable to the Company by the issuer of any auction rate securities pledged as collateral.

UBS's obligations under the Settlement are not secured by its assets and do not require UBS to obtain any financing to support its performance obligations under the Settlement. UBS has disclaimed any assurance that it will have sufficient financial resources to satisfy its obligations under the Settlement.

To account for the Settlement, the Company recorded a separate freestanding asset (put option) of $8.7 million and recognized a corresponding gain in earnings during the fourth quarter of 2008. The fair value of the put option is included in long-term investments on the balance sheet as of December 28, 2008 with the corresponding gain classified as interest income in the consolidated statement of operations for the year ended December 28, 2008. The put option does not meet the definition of a derivative instrument under SFAS No. 133, therefore, the Company elected to measure the put option at fair value under SFAS No. 159. The Company valued the put option using a discounted cash flow approach including estimates of interest rates, timing and amount of cash flow, with consideration given to UBS's financial ability to repurchase the auction rate securities beginning June 30, 2010. These assumptions are volatile and subject to change as the underlying sources of these assumptions and market conditions change.

Prior to accepting the UBS offer, the Company recorded its auction rate securities as available-for-sale investments, and therefore recorded resulting unrealized gains or losses in accumulated other comprehensive income in its statements of stockholders' equity. By signing the settlement agreement, the Company no longer had the intent of holding the auction rate securities until recovery as management now has the intent to exercise its put option during the period June 30, 2010 to July 3, 2012. As a result, the Company elected a one-time transfer of the auction rate securities from available-for-sale to trading in accordance with SFAS No. 115. Prior to its agreement with UBS, management's intent was to hold the auction rate securities until the earlier of anticipated recovery in market value or maturity. Upon transfer to trading securities, the Company immediately recognized a loss of $8.7 million, included in interest income for the amount of the unrealized loss not previously recognized in earnings. The Company will continue to recognize gains and losses in earnings approximating the changes in the fair value of the auction rate securities at each balance sheet date. These gains and losses are expected to be approximately offset by changes in the fair value of the put option.

5. Intangible Assets

The Company's intangible assets are comprised primarily of acquired core technology and customer relationships from the acquisition of Solexa and licensed technology from the Affymetrix settlement entered into on January 9, 2008. As a result of this settlement, the Company agreed, without admitting liability, to make a one-time payment to Affymetrix of $90.0 million. In return, Affymetrix agreed to dismiss with prejudice all lawsuits it had brought against the Company, and the Company agreed to dismiss with prejudice its counterclaims in the relevant lawsuits. Affymetrix also agreed not to sue the Company or its affiliates or customers for making, using or selling any of the Company's current products, evolutions of those products or services related to those products. In addition, Affymetrix agreed that, for four years, it will not sue the Company for making, using or selling the Company's products or services that are based on future technology developments. The covenant not to sue covers all fields other than photolithography, the process by which Affymetrix manufactures its arrays and a field in which the Company does not operate.

Of the total $90.0 million payment made on January 25, 2008, $36.0 million was recorded as licensed technology and classified as an intangible asset. The remaining $54.0 million was charged to expense during

the fourth quarter of 2007. This allocation was determined in accordance with SFAS No. 5, *Accounting for Contingencies*, and EITF 00-21 using the concepts of fair value based on the past and estimated future revenue streams related to the products covered by the patents previously under dispute. The value of the licensed technology is the benefit derived, calculated using estimated discounted cash flows and future revenue projections, from the perpetual covenant not to sue for damages related to the sale of the Company's current products. The Company utilized an annual discount rate of 9.25% when preparing this model. The effective life of the licensed technology extends through 2015, the final expiry date of all patents considered in valuing the intangible asset. The related amortization is based on the higher of the percentage of usage or the straight-line method. The percentage of usage was determined using actual and projected revenues generated from products covered by the patents previously under dispute.

Acquired core technology and customer relationships are being amortized on a straight-line basis over their effective useful lives of ten and three years, respectively. The amortization of the Company's intangible assets is excluded from cost of product revenue and is separately classified as amortization of intangible assets on the Company's consolidated statements of operations.

The following is a summary of the Company's amortizable intangible assets as of the respective balance sheet dates (in thousands):

	December 28, 2008			December 30, 2007		
	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net
Licensed technology	$36,000	$ (7,788)	$28,212	$36,000	$ —	$36,000
Core technology	23,500	(4,504)	18,996	23,500	(2,154)	21,346
Customer relationships	900	(575)	325	900	(275)	625
License agreements	1,154	(932)	222	1,029	(884)	145
Total intangible assets, net	$61,554	$(13,799)	$47,755	$61,429	$(3,313)	$58,116

Amortization expense associated with the intangible assets was $10.4 million and $2.4 million for the years ended December 28, 2008 and December 30, 2007, respectively. There was no amortization of intangibles for the year ended January 1, 2006.

The estimated annual amortization of intangible assets for the next five years is shown in the following table (in thousands). Actual amortization expense to be reported in future periods could differ from these estimates as a result of acquisitions, divestitures, asset impairments and other factors.

2009	$ 6,749
2010	6,462
2011	6,425
2012	6,618
2013	6,518
Thereafter	14,983
Total	$47,755

6. Impairment of Manufacturing Equipment

During fiscal 2008, the Company implemented next-generation imaging and decoding systems to be used in manufacturing. These systems were developed to increase existing capacity and allow the Company to transition to the Infinium High-Density (HD) product line. As a result of this transition, the demand for products manufactured on the previous infrastructure was reduced and certain systems were no longer being

utilized. In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, a non-cash impairment charge of $4.1 million was recorded in the second quarter of fiscal 2008 for the excess machinery. This charge is included as a separate line item in the Company's consolidated statement of operations. There was no change to useful lives and related depreciation expense of the remaining assets as the Company believes these estimates are currently reflective of the period the assets will be used in operations.

7. Warranties

The Company generally provides a one-year warranty on sequencing, genotyping and gene expression systems. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses associated with system sales. This expense is recorded as a component of cost of product revenue. Estimated warranty expenses associated with extended maintenance contracts are recorded as cost of revenue ratably over the term of the maintenance contract.

Changes in the Company's reserve for product warranties from January 1, 2006 through December 28, 2008 are as follows (in thousands):

Balance as of January 1, 2006	$ 751
Additions charged to cost of revenue	1,379
Repairs and replacements	(1,134)
Balance as of December 31, 2006	996
Additions charged to cost of revenue	4,939
Repairs and replacements	(2,219)
Balance as of December 30, 2007	3,716
Additions charged to cost of revenue	13,044
Repairs and replacements	(8,557)
Balance as of December 28, 2008	$ 8,203

8. Convertible Senior Notes

On February 16, 2007, the Company issued $400.0 million principal amount of 0.625% Convertible Senior Notes due 2014 (the Notes), which included the exercise of the initial purchasers' option to purchase up to an additional $50.0 million aggregate principal amount of Notes. The net proceeds from the offering, after deducting the initial purchasers' discount and offering expenses, were $390.3 million. The Company will pay 0.625% interest per annum on the principal amount of the Notes, payable semi-annually in arrears in cash on February 15 and August 15 of each year. The Company made interest payments of $1.3 million and $1.2 million on February 15, 2008 and August 15, 2008, respectively. The Notes mature on February 15, 2014.

The Notes will be convertible into cash and, if applicable, shares of the Company's common stock, $0.01 par value per share, based on a conversion rate, subject to adjustment, of 45.8058 shares per $1,000 principal amount of Notes (which represents a conversion price of $21.83 per share), only in the following circumstances and to the following extent: (1) during the five business-day period after any five consecutive trading period (the measurement period) in which the trading price per Note for each day of such measurement period was less than 97% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such day; (2) during any calendar quarter after the calendar quarter ending March 30, 2007, if the last reported sale price of the Company's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately

preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; (3) upon the occurrence of specified events; and (4) the Notes will be convertible at any time on or after November 15, 2013 through the third scheduled trading day immediately preceding the maturity date. The requirements of the second condition above were satisfied during the first, second and third quarters of 2008. Accordingly, the Company's outstanding convertible notes became convertible into cash and, if applicable, shares of common stock, during the period from, and including April 1, 2008 through, and including, December 31, 2008. During the fourth quarter of 2008, the requirements of this same condition were no longer satisfied, accordingly, the Notes will no longer be convertible during the period from, and including January 1, 2009 through, and including March 31, 2009 unless another conversion condition is satisfied during this period. Generally, upon conversion of a Note, the Company will pay the conversion value of the Note in cash, up to the principal amount of the Note. Any excess of the conversion value over the principal amount is payable in shares of the Company's common stock. As of December 28, 2008, the principal amount of these Notes was classified as current liabilities as the Notes were still convertible through December 31, 2008.

In connection with the offering of the Notes in February 2007, the Company entered into convertible note hedge transactions (the hedge) with the initial purchasers and/or their affiliates (the counterparties) entitling the Company to purchase up to 18,322,320 shares of the Company's common stock at a strike price of $21.83 per share, subject to adjustment. In addition, the Company sold to these counterparties warrants (the warrants) exercisable, on a cashless basis, for up to 18,322,320 shares of the Company's common stock at a strike price of $31.435 per share, subject to adjustment. The cost of the hedge that was not covered by the proceeds from the sale of the warrants was $46.6 million and was reflected as a reduction of additional paid-in capital. The hedge is expected to reduce the potential equity dilution upon conversion of the Notes to the extent the Company exercises the note hedges to purchase shares from the counterparties to deliver to converting noteholders. However, the warrants could have a dilutive effect on the Company's earnings per share to the extent that the price of the Company's common stock exceeds the strike price of the warrants on the exercise dates of the warrants, which occur during 2014, and the warrants are exercised.

9. Commitments

Operating Leases

The Company leases office and manufacturing facilities under various noncancellable operating lease agreements. Facilities leases generally provide for periodic rent increases, and many contain escalation clauses and renewal options. Certain leases require the Company to pay property taxes and routine maintenance. The Company is headquartered in San Diego, California and leases facilities in Hayward, California, the United Kingdom, The Netherlands, Japan, Singapore, Australia and China.

Annual future minimum payments under these operating leases as of December 28, 2008 were as follows (in thousands):

2009	$ 11,032
2010	11,122
2011	11,823
2012	11,920
2013	11,458
Thereafter	100,885
Total	$158,240

Rent expense, net of amortization of the deferred gain on sale of property, was $10.7 million, $7.7 million and $4.7 million for the years ended December 28, 2008, December 30, 2007 and December 31, 2006, respectively.

10. Stockholders' Equity

Common Stock

On July 22, 2008, the Company announced a two-for-one stock split in the form of a 100% stock dividend with a record date of September 10, 2008 and a distribution date of September 22, 2008. Share and per share amounts have been restated to reflect the stock split for all periods presented.

On August 12, 2008, a total of 8,050,000 shares were sold to the public at a public offering price of $43.75 per share, raising net proceeds to the Company of $342.6 million, after deducting underwriting discounts and commissions and offering expenses.

On December 28, 2008, the Company had 121,008,599 shares of common stock outstanding.

Stock Options

In June 2005, the stockholders of the Company approved the 2005 Stock and Incentive Plan (the 2005 Stock Plan). Upon adoption of the 2005 Stock Plan, issuance of options under the Company's existing 2000 Stock Plan ceased. Additionally, in connection with the acquisition of Solexa, the Company assumed stock options granted under the 2005 Solexa Equity Incentive Plan (the 2005 Solexa Equity Plan). The 2005 Stock Plan and the 2005 Solexa Equity Plan initially provided that an aggregate of up to 24,571,238 shares of the Company's common stock be reserved and available to be issued. The 2005 Stock Plan provides for an automatic annual increase in the shares reserved for issuance by the lesser of 5% of the outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year, 2,400,000 shares or such lesser amount as determined by the Company's board of directors. Additionally, during the Company's Annual Meeting of Stockholders held on May 16, 2008, the stockholders ratified an amendment to increase the maximum number of shares of common stock authorized for issuance under the 2005 Stock Plan by 2,400,000 shares. As of December 28, 2008, options to purchase 6,777,903 shares remained available for future grant under the 2005 Stock Plan and 2005 Solexa Equity Plan.

On January 29, 2008, the Company's board of directors approved the New Hire Stock and Incentive Plan, which provides for the issuance of options and shares of restricted stock to newly hired employees. There is no set number of shares reserved for issuance under this Plan.

The Company's stock option activity under all stock option plans from January 1, 2006 through December 28, 2008 is as follows:

	Options	Weighted-Average Exercise Price
Outstanding at January 1, 2006	14,650,862	$ 3.98
Granted	5,242,100	$13.62
Exercised	(2,546,238)	$ 3.64
Cancelled	(628,484)	$ 6.22
Outstanding at December 31, 2006	16,718,240	$ 6.97
Options assumed through business combination	2,848,664	$10.69
Granted	7,569,016	$20.32
Exercised	(4,358,572)	$ 6.03
Cancelled	(1,929,480)	$11.19
Outstanding at December 30, 2007	20,847,868	$12.13
Granted	3,091,108	$34.23
Exercised	(4,571,855)	$ 8.52
Cancelled	(1,232,917)	$19.93
Outstanding at December 28, 2008	18,134,204	$16.26

The following is a further breakdown of the options outstanding as of December 28, 2008:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price of Options Exercisable
$0.05-3.95	2,195,626	4.14	$ 2.94	1,706,512	$ 2.91
$3.97-4.85	1,813,554	5.38	$ 4.34	1,023,641	$ 4.37
$4.94-10.49	2,907,761	6.27	$ 8.44	1,496,162	$ 8.28
$10.66-16.19	1,890,491	7.35	$13.79	787,957	$13.50
$16.27-19.61	2,619,364	7.81	$18.24	893,047	$18.24
$19.71-20.04	2,227,638	7.22	$20.03	701,138	$20.04
$20.12-29.78	1,819,970	8.80	$24.51	336,421	$24.62
$30.09-33.80	1,840,600	9.12	$32.61	218,044	$32.51
$34.43-42.02	589,200	9.33	$38.51	5,000	$41.75
$44.38	230,000	9.60	$44.38	—	$ —
$0.05-44.38	18,134,204	7.06	$16.26	7,167,922	$10.94

The weighted average remaining life in years of options exercisable is 6.37 years as of December 28, 2008.

The aggregate intrinsic value of options outstanding and options exercisable as of December 28, 2008 was $192.4 million and $105.4 million, respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price per share on the last trading day of the fiscal period, which was $25.36 as of December 26, 2008, and the exercise price multiplied by the number of options outstanding. Total intrinsic value of options exercised was $136.6 million, $72.1 million and $34.0 million for the years ended December 28, 2008, December 30, 2007 and December 31, 2006, respectively.

Employee Stock Purchase Plan

In February 2000, the board of directors and stockholders adopted the 2000 ESPP. A total of 15,467,426 shares of the Company's common stock have been reserved for issuance under the ESPP. The ESPP permits eligible employees to purchase common stock at a discount, but only through payroll deductions, during defined offering periods.

The price at which stock is purchased under the ESPP is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. The initial offering period commenced in July 2000. In addition, beginning with fiscal 2001, the ESPP provides for annual increases of shares available for issuance by the lesser of 3% of the number of outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year, 3,000,000 shares or such lesser amount as determined by the Company's board of directors. Shares totaling 276,198, 266,962 and 532,788 were issued under the ESPP during fiscal 2008, 2007 and 2006, respectively. As of December 28, 2008, there were 10,794,162 shares available for issuance under the ESPP.

Restricted Stock Units

In 2007 the Company began granting restricted stock units pursuant to its 2005 Stock and Incentive Plan as part of its periodic employee equity compensation review program. Restricted stock units are share awards that, upon vesting, will deliver to the holder shares of the Company's common stock. Restricted stock units granted during 2007 vest over four years as follows: 15% vest on the first and second anniversaries of the grant date, 30% vest on the third anniversary of the grant date and 40% vest on the fourth anniversary of the grant date. Effective January 2008, the Company changed the vesting schedule for grants of new restricted stock units. Currently, restricted stock units vest 15% on the first anniversary of the grant date, 20% on the second anniversary of the grant date, 30% on the third anniversary of the grant date and 35% on the fourth anniversary of the grant date.

A summary of the Company's restricted stock unit activity and related information in the fiscal year ended December 28, 2008 is as follows:

	Restricted Stock Units(1)
Outstanding at December 31, 2006	—
Awarded	395,500
Vested	—
Cancelled	(1,000)
Outstanding at December 30, 2007	394,500
Awarded	1,287,504
Vested	(55,638)
Cancelled	(47,090)
Outstanding at December 28, 2008	1,579,276

(1) Each stock unit represents the fair market value of one share of common stock.

The weighted average grant-date fair value per share for the restricted stock units was $34.53 and $25.69 for the years ended December 28, 2008 and December 30, 2007, respectively. No restricted stock units were outstanding as of December 31, 2006.

Based on the closing price per share of the Company's common stock of $25.36 on December 26, 2008, the total pretax intrinsic value of all outstanding restricted stock units on that date was $40.0 million.

Warrants

In conjunction with its acquisition of Solexa, Inc. on January 26, 2007, the Company assumed 4,489,686 warrants issued by Solexa prior to the acquisition. During the year ended December 28, 2008, there were 401,362 warrants exercised, resulting in cash proceeds to the Company of $3.0 million. As of December 28, 2008, 252,164 of the assumed warrants had expired.

A summary of all warrants outstanding as of December 28, 2008 is as follows:

Number of Shares	Exercise Price	Expiration Date
238,510	$ 7.27	4/25/2010
864,040	$ 7.27	7/12/2010
809,246	$10.91	11/23/2010
1,125,734	$10.91	1/19/2011
18,322,320(1)	$31.44	2/15/2014
21,359,850		

(1) Represents warrants sold in connection with the offering of the Company's Convertible Senior Notes (See Note 8).

Treasury Stock

In connection with its issuance of $400.0 million principal amount of 0.625% Convertible Senior Notes due 2014 on February 16, 2007, the Company repurchased 11.6 million shares of its outstanding common stock for $201.6 million in privately negotiated transactions concurrently with the offering.

On February 20, 2007, the Company executed a Rule 10b5-1 trading plan to repurchase up to $75.0 million of its outstanding common stock over a period of six months. The Company repurchased 3.2 million shares of its common stock under this plan for $50.0 million. As of December 30, 2007, this plan had expired.

On October 23, 2008, the board of directors authorized a $120.0 million stock repurchase program. As of December 28, 2008 the Company had repurchased 3.1 million shares for $70.8 million under the plan in open-market transactions or through privately negotiated transactions in compliance with Rule 10b-18 under the Securities Exchange Act of 1934. As of December 28, 2008, $49.2 million remains authorized for future repurchases under the program.

Stockholder Rights Plan

On May 3, 2001, the board of directors of the Company declared a dividend of one preferred share purchase right (a Right) for each outstanding share of common stock of the Company. The dividend was payable on May 14, 2001 (the Record Date) to the stockholders of record on that date. Each Right entitles the registered holder to purchase from the Company one unit consisting of one-thousandth of a share of its Series A Junior Participating Preferred Stock at a price of $100 per unit. The Rights will be exercisable if a person or group hereafter acquires beneficial ownership of 15% or more of the outstanding common stock of the Company or announces an offer for 15% or more of the outstanding common stock. If a person or group acquires 15% or more of the outstanding common stock of the Company, each Right will entitle its holder to purchase, at the exercise price of the right, a number of shares of common stock having a market value of two times the exercise price of the right. If the Company is acquired in a merger or other business combination transaction after a person acquires 15% or more of the Company's common stock, each Right will entitle its holder to purchase, at the Right's then-current exercise price, a number of common shares of the acquiring

company which at the time of such transaction have a market value of two times the exercise price of the right. The board of directors will be entitled to redeem the Rights at a price of $0.01 per Right at any time before any such person acquires beneficial ownership of 15% or more of the outstanding common stock. The rights expire on May 14, 2011 unless such date is extended or the rights are earlier redeemed or exchanged by the Company.

11. Litigation Settlements

In the recent past, the Company incurred substantial costs in defending against patent infringement claims and expects, going forward, to devote substantial financial and managerial resources to protect the Company's intellectual property and to defend against any future claims asserted against the Company. From time to time, the Company may also be parties to other litigation in the ordinary course of business. While the results of any litigation are uncertain, management does not believe the ultimate resolution of its legal matters will result in a material adverse impact to the Company.

Applied Biosystems Litigation

On December 26, 2006, Applied Biosystems Inc. (Applied Biosystems), formerly known as Applera Corporation (currently known as Applied Biosystems LLC, a wholly owned subsidiary of Life Technologies Corporation), filed suit in California Superior Court, Santa Clara County, against Solexa (which was acquired by the Company on January 26, 2007). This State Court action related to the ownership of several patents assigned in 1995 to Solexa's predecessor company (Lynx Therapeutics) by a former employee (Dr. Stephen Macevicz), who is the inventor of these patents and is named as a co-defendant in the suit. The Macevicz patents are directed to methods for sequencing DNA (US Pat. Nos. 5,750,341 and 6,306,597) using successive rounds of oligonucleotide probe ligation (sequencing-by-ligation), and to a probe (5,969,119) used in connection with these sequencing methods. Lynx was originally a unit of Applied Biosystems but was spun out in 1992. On May 31, 2007, Applied Biosystems filed a second suit, this time against the Company, in the U.S. District Court for the Northern District of California. This second suit sought a declaratory judgment of non-infringement of the Macevicz patents that were the subject of the State Court action mentioned above. Both suits were later consolidated in the U.S. District Court for the Northern District of California, San Francisco Division. By these consolidated actions, Applied Biosystems was seeking ownership of the three Macevicz patents, unspecified costs and damages, and a declaration of non-infringement and invalidity of these patents. Applied Biosystems was not asserting any claim for patent infringement against the Company.

On January 5, 2009, the case went to trial in two phases. The first phase addressed the determination of ownership of the patents-in-suit, and the second phase addressed whether these patents were infringed and valid. On January 14, 2009, at the end of the first phase, a federal jury determined that Solexa was the rightful owner of all three Macevicz patents. On January 27, 2009, the same jury found that Applied Biosystems did not infringe the '119 probe patent, and that the '119 patent was valid. In August 2008, the court had ruled that Applied Biosystems' two-base system did not infringe the '341 and '597 patents. Prior to the jury finding of non-infringement of the '119 patent, Applied Biosystems conceded that its one-base system infringed claim 1 of the '597 patent and Solexa conceded invalidity of that same claim under the court's construction of that claim. Both parties reserved the right to appeal the court's construction of claim 1 of the '597 patent, among other things.

The Company's Genome Analyzer products use a different technology, called Sequencing-by-Synthesis (SBS), which is not covered by any of the Macevicz patents. In addition, the Company has no plans to use any of the Sequencing-by-Ligation technologies covered by these patents.

12. Income Taxes

The income (loss) before income taxes summarized by region is as follows (in thousands):

	Year Ended December 28, 2008	Year Ended December 30, 2007	Year Ended December 31, 2006
United States	$64,424	$ 58,445	$42,612
Foreign	26,482	(347,230)	8
Total income (loss) before income taxes	$90,906	$(288,785)	$42,620

The provision (benefit) for income taxes consists of the following (in thousands):

	Year Ended December 28, 2008	Year Ended December 30, 2007	Year Ended December 31, 2006
Current:			
Federal	$13,868	$ 18,564	$1,125
State	2,134	4,801	1,177
Foreign	5,042	(2,172)	903
Total current provision	21,044	21,193	3,205
Deferred:			
Federal	17,656	(20,254)	—
State	2,103	(11,622)	—
Foreign	(374)	257	(553)
Total deferred provision	19,385	(31,619)	(553)
Total tax provision (benefit)	$40,429	$(10,426)	$2,652

The provision (benefit) for income taxes reconciles to the amount computed by applying the federal statutory rate to income (loss) before taxes as follows (in thousands):

	Year Ended December 28, 2008	Year Ended December 30, 2007	Year Ended December 31, 2006
Tax at federal statutory rate	$31,817	$(101,075)	$ 14,945
State, net of federal benefit	4,242	(9,672)	1,963
Alternative minimum tax	—	—	1,125
Research and other credits	(4,060)	(3,118)	(3,096)
Acquired in-process research & development	9,508	116,916	—
Adjustments to deferred tax balances	—	—	(3,258)
Change in valuation allowance	(149)	(17,125)	(10,038)
Permanent differences	1,449	653	573
Foreign rate adjustments	(2,619)	3,160	430
Other	241	(165)	8
Total tax provision (benefit)	$40,429	$ (10,426)	$ 2,652

Significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	December 28, 2008	December 30, 2007
Deferred tax assets:		
Net operating losses	$ 18,557	$ 34,277
Tax credits	19,139	11,465
Accrued litigation settlements	—	21,427
Other accruals and reserves	11,341	6,326
Stock compensation	15,962	8,166
Convertible debt	42,456	49,137
Other	13,268	12,322
Total deferred tax assets	120,723	143,120
Valuation allowance on deferred tax assets	(15,200)	(28,343)
Net deferred tax assets	105,523	114,777
Deferred tax liabilities:		
Purchased intangible amortization	(5,985)	(7,084)
Accrued litigation settlements	(11,084)	—
Other	(1,498)	(514)
Total deferred tax liabilities	(18,567)	(7,598)
Net deferred tax assets	$ 86,956	$107,179

A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction-by-jurisdiction basis, and includes a review of all available positive and negative evidence. Based on the available evidence as of December 28, 2008, the Company was not able to conclude it is more likely than not certain U.S. and foreign deferred tax assets will be realized. Therefore, the Company recorded a valuation allowance of $2.8 million and $12.4 million against certain U.S. and foreign deferred tax assets, respectively. At December 30, 2007, the Company had concluded that it is more likely than not that a significant portion of its deferred tax assets will be realized and, accordingly the Company released a portion of its valuation allowance, $17.1 million of which was recorded as a reduction to the tax provision.

As of December 28, 2008, the Company had net operating loss carryforwards for federal and state tax purposes of $87.7 million and $148.3 million, respectively, which begin to expire in 2025 and 2013, respectively, unless previously utilized. In addition, the Company also had U.S. federal and state research and development tax credit carryforwards of $12.6 million and $13.9 million, respectively, which begin to expire in 2018 and 2019, respectively, unless previously utilized.

As of December 28, 2008, the valuation allowance includes $14.0 million of pre-acquisition deferred tax assets of Solexa. Prior to the adoption of SFAS 141(R) to the extent any of these assets were recognized, the adjustment would have been applied first to reduce to zero any goodwill related to the acquisition, and then an a reduction to the tax provision.

Pursuant to Section 382 and 383 of the Internal Revenue Code, utilization of the Company's net operating losses and credits may be subject to annual limitations in the event of any significant future changes in its ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization. Previous limitations due to Section 382 and 383 have been reflected in the deferred tax assets as of December 28, 2008.

Due to the adoption of SFAS No. 123R, the Company recognizes excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company. During 2008, the Company realized $18.5 million of such excess tax benefits, and accordingly recorded a corresponding credit to additional paid in capital. As of December 28, 2008, the Company has $36.5 million of unrealized excess tax benefits associated with share-based compensation. These tax benefits will be accounted for as a credit to additional paid-in capital, if and when realized, rather than a reduction of the tax provision.

The Company's manufacturing operations in Singapore operate under various tax holidays and incentives that begin to expire in 2018. For the year ended December 28, 2008, these tax holidays and incentives resulted in an approximate $1.9 million decrease to the tax provision and an increase to net income per diluted share of $0.01.

Residual U.S. income taxes have not been provided on $14.7 million of undistributed earnings of foreign subsidiaries as of December 28, 2008, since the earnings are considered to be indefinitely invested in the operations of such subsidiaries.

Effective January 1, 2007, the Company adopted FIN No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in tax positions. FIN No. 48 requires recognition of the impact of a tax position in the Company's financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. The adoption of FIN No. 48 did not result in an adjustment to the Company's opening stockholders' equity since there was no cumulative effect from the change in accounting principle.

The following table summarizes the gross amount of the Company's uncertain tax positions (in thousands):

Balance at December 31, 2007	$21,376
Increases related to current year tax positions	2,402
Balance at December 28, 2008	$23,778

As of December 28, 2008, $7.7 million of the Company's uncertain tax positions would reduce the Company's annual effective tax rate, if recognized.

The Company does not expect its uncertain tax positions to change significantly over the next 12 months. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense. As of December 28, 2008, no interest or penalties have been accrued related to the Company's uncertain tax positions. Tax years 1992 to 2008 remain subject to future examination by the major tax jurisdictions in which the Company is subject to tax.

13. Employee Benefit Plans

Retirement Plan

The Company has a 401(k) savings plan covering substantially all of its employees. Company contributions to the plan are discretionary. During the years ended December 28, 2008, December 30, 2007 and December 31, 2006, the Company made matching contributions of $2.6 million, $1.4 million and $0.4 million, respectively.

Executive Deferred Compensation Plan

For the Company's executives and members of the board of directors, the Company adopted the Illumina, Inc. Deferred Compensation Plan (the Plan) that became effective January 1, 2008. Eligible participants can contribute up to 80% of their base salary and 100% of all other forms of compensation into the Plan, including bonus, commission and director fees. The Company has agreed to credit the participants' contributions with earnings that reflect the performance of certain independent investment funds. On a discretionary basis, the Company may also make employer contributions to participant accounts in any amount determined by the Company. The vesting schedules of employer contributions are at the sole discretion of the Compensation Committee. However, all employer contributions shall become 100% vested upon the occurrence of the participant's disability, death or retirement or a change in control of the Company. The benefits under this plan are unsecured. Participants are generally eligible to receive payment of their vested benefit at the end of their elected deferral period or after termination of their employment with the Company for any reason or at a later date to comply with the restrictions of Section 409A. As of December 28, 2008, no employer contributions were made to the Plan.

In January 2008, the Company also established a rabbi trust for the benefit of its directors and executives under the Plan. In accordance with FASB Interpretation (FIN) No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*, and EITF 97-14, *Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested*, the Company has included the assets of the rabbi trust in its consolidated balance sheet since the trust's inception. As of December 28, 2008, the assets of the trust and liabilities of the Company were $1.3 million. The assets and liabilities are classified as other assets and accrued liabilities, respectively, on the Company's balance sheet as of December 28, 2008. Changes in the values of the assets held by the rabbi trust accrue to the Company.

14. Segment Information, Geographic Data and Significant Customers

During the first quarter of 2008, the Company reorganized its operating structure into a newly created Life Sciences Business Unit, which includes all products and services related to the research market, namely the BeadArray, BeadXpress and Sequencing product lines. The Company also created a Diagnostics Business Unit to focus on the emerging opportunity in molecular diagnostics. For the year ended December 28, 2008, the Company had limited activity related to the Diagnostics Business Unit, and operating results were reported on an aggregate basis to the chief operating decision maker of the Company, the chief executive officer. In accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, the Company operated in one reportable segment for the year ended December 28, 2008.

The Company had revenue in the following regions for the years ended December 28, 2008, December 30, 2007 and December 31, 2006 (in thousands):

	Year Ended December 28, 2008	Year Ended December 30, 2007	Year Ended December 31, 2006
United States	$280,064	$207,692	$103,043
United Kingdom	67,973	34,196	22,840
Other European countries	127,397	75,360	32,600
Asia-Pacific	72,740	35,155	15,070
Other markets	25,051	14,396	11,033
Total	$573,225	$366,799	$184,586

Net revenues are attributable to geographic areas based on the region of destination.

The majority of our product sales consist of consumables and instruments. For the years ended December 28, 2008, December 30, 2007, and December 31, 2006, consumable sales represented 58%, 53% and 54%, respectively, of total revenues and instrument sales comprised 32%, 33% and 23%, respectively, of total revenues. Our customers include leading genomic research centers, pharmaceutical companies, academic institutions, clinical research organizations and biotechnology companies. The Company had no customers that provided more than 10% of total revenue in the years ended December 28, 2008, December 30, 2007 and December 31, 2006.

Net long-lived assets exclude goodwill and other intangible assets since they are not allocated on a geographic basis. The Company had net long-lived assets consisting of property and equipment in the following regions as of December 28, 2008 and December 30, 2007 (in thousands):

	Year Ended December 28, 2008	Year Ended December 30, 2007
United States	$65,630	$40,972
United Kingdom	9,849	4,809
Other European countries	1,055	230
Singapore	12,586	—
Other Asia-Pacific countries	316	263
Total	$89,436	$46,274

15. Quarterly Financial Information (unaudited)

The following financial information reflects all normal recurring adjustments, except as noted below, which are, in the opinion of management, necessary for a fair statement of the results and cash flows of interim periods. Summarized quarterly data for fiscal 2008 and 2007 are as follows (in thousands except per share data):

	First Quarter(1)	Second Quarter	Third Quarter	Fourth Quarter
2008:				
Total revenue	$ 121,861	$140,177	$ 150,260	$160,927
Total cost of revenue (excluding impairment of manufacturing equipment and amortization of intangible assets)	46,081	50,459	54,430	54,654
Net income (loss)	13,428	15,398	(7,288)	28,939
Net income (loss) per share, basic	0.12	0.14	(0.06)	0.24
Net income (loss) per share, diluted	0.11	0.12	(0.06)	0.22
Net cash (used in) provided by operating activities	(26,755)	37,222	27,298	50,117
Net cash used in investing activities	(44,123)	(37,384)	(164,520)	(31,222)
Net cash provided by (used in) financing activities	15,979	14,171	356,936	(49,414)
2007:				
Total revenue	$ 72,150	$ 84,535	$ 97,510	$112,604
Total cost of revenue (excluding amortization of intangible assets)	25,120	30,141	37,078	40,097
Net income (loss)	(298,076)	9,264	14,503	(4,050)
Net income (loss) per share, basic	(2.79)	0.09	0.14	(0.04)
Net income (loss) per share, diluted	(2.79)	0.08	0.12	(0.04)
Net cash provided by operating activities	14,643	24,482	5,316	11,853
Net cash used in investing activities	(34,410)	(69,514)	(32,143)	68,381
Net cash provided by financing activities	104,950	2,464	10,433	30,445

(1) The Company reclassified $36.0 million from cash provided by operating activities to cash used in investing activities in the first quarter of 2008 for the portion of the litigation payment relating to intangible assets.

Exhibit 222

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended January 3, 2010

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .

Commission file number: 000-30361

Illumina, Inc.

(Exact name of Registrant as Specified in Its Charter)

Delaware	**33-0804655**
(State or other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
9885 Towne Centre Drive, San Diego, California	**92121**
(Address of Principal Executive Offices)	*(zip code)*

Registrant's telephone number, including area code: (858) 202-4500

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $0.01 par value (including associated Preferred Stock Purchase Rights)	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of February 5, 2010, there were 120,298,934 shares (excluding 24,068,450 shares held in treasury) of the Registrant's Common Stock outstanding. The aggregate market value of the Common Stock held by non-affiliates of the Registrant as of June 28, 2009 (the last business day of the Registrant's most recently completed second fiscal quarter), based on the closing price for the Common Stock on The NASDAQ Global Select Market on that date, was $4,649,494,956. This amount excludes an aggregate of 2,197,137 shares of Common Stock held by officers and directors and each person known by the Registrant to own 10% or more of the outstanding Common Stock. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, directly or indirectly, to direct or cause the direction of the management or policies of the Registrant, or that the Registrant is controlled by or under common control with such person.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for the annual meeting of stockholders expected to be held on May 12, 2010 are incorporated by reference into Items 10 through 14 of Part III of this Report.

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended		
	January 3, 2010	December 28, 2008(1)	December 30, 2007(1)
	(In thousands, except per share amounts)		
Revenue:			
Product revenue	$627,240	$532,390	$ 326,699
Service and other revenue	39,084	40,835	40,100
Total revenue	666,324	573,225	366,799
Costs and expenses:			
Cost of product revenue (excluding impairment of manufacturing equipment and amortization of intangible assets)	190,714	192,868	119,991
Cost of service and other revenue	15,055	12,756	12,445
Research and development	140,616	99,963	73,943
Selling, general and administrative	176,337	148,014	101,256
Impairment of manufacturing equipment	—	4,069	—
Amortization of intangible assets	6,680	10,438	2,429
Acquired in-process research and development	11,325	24,660	303,400
Litigation settlements	—	—	54,536
Total costs and expenses	540,727	492,768	668,000
Income (loss) from operations	125,597	80,457	(301,201)
Other income (expense), net:			
Interest income	11,029	12,519	16,025
Interest expense	(23,718)	(22,210)	(18,297)
Other income (expense), net	1,217	1,921	(47)
Total other expense, net	(11,472)	(7,770)	(2,319)
Income (loss) before income taxes	114,125	72,687	(303,520)
Provision (benefit) for income taxes	41,844	33,271	(16,215)
Net income (loss)	$ 72,281	$ 39,416	$(287,305)
Net income (loss) per basic share	$ 0.59	$ 0.34	$ (2.65)
Net income (loss) per diluted share	$ 0.53	$ 0.30	$ (2.65)
Shares used in calculating basic net income (loss) per share	123,154	116,855	108,308
Shares used in calculating diluted net income (loss) per share	137,096	133,607	108,308

(1) Adjusted for required retroactive adoption of authoritative accounting guidance for convertible debt instruments that may be settled in cash upon conversion effective December 29, 2008.

See accompanying notes to consolidated financial statements

Unless the context requires otherwise, references in this report to "Illumina," "we," "us," the "Company," and "our" refer to Illumina, Inc. and its consolidated subsidiaries.

1. Organization and Summary of Significant Accounting Policies

Organization and Business

Illumina, Inc. (the Company) is a leading developer, manufacturer and marketer of integrated systems for the analysis of genetic variation and biological function. Using the Company's proprietary technologies, Illumina provides a comprehensive line of products and services that currently serve the sequencing, genotyping and gene expression markets and the Company expects to enter the market for molecular diagnostics. The Company's customers include leading genomic research centers, pharmaceutical companies, academic institutions, clinical research organizations and biotechnology companies.

Acquisitions

On August 1, 2008, the Company completed its acquisition of Avantome, Inc., a development-stage company creating a low cost, long-read sequencing technology. At the time of the acquisition, the Company paid $25.8 million in cash, including transaction costs, and recorded a charge of $24.7 million for purchased in-process research and development (IPR&D). As part of the acquisition agreement, Illumina agreed to pay Avantome's former shareholders up to an additional $35.0 million in contingent cash consideration based on the achievement of certain milestones. For the year ended January 3, 2010, the Company recorded IPR&D of $11.3 million and compensation expense of $3.7 million associated with these milestones. For the year ended December 28, 2008, compensation expense of $1.5 million was recorded associated with these milestones. Compensation expense associated with the Avantome acquisition is included in research and development in the consolidated statements of operations.

On January 26, 2007, the Company completed its acquisition of Solexa, Inc., in a stock-for-stock merger transaction. The Company issued 26.2 million shares of its common stock as consideration for this merger. Based on the estimated fair values at the acquisition date, the Company allocated $303.4 million to IPR&D, $62.2 million to tangible assets acquired and liabilities assumed and $24.4 million to intangible assets. The remaining excess of the purchase price over the fair value of net assets acquired of $213.4 million was allocated to goodwill.

Basis of Presentation

The consolidated financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) and include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Fiscal Year

The Company's fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The year ended January 3, 2010 was 53 weeks; the years ended December 28, 2008 and December 30, 2007 were 52 weeks.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. During the fourth quarter of 2009, the Company determined that pre-acquisition net operating loss carryforwards of Solexa that were included in goodwill could be utilized by the Company. Therefore, the Company has updated the Consolidated Financial Statements and related disclosures to reclassify $15.3 million from goodwill to

long-term deferred tax assets to correctly reflect the tax effect of Solexa's pre-acquisition net operating losses that can be utilized by the Company.

Use of Estimates

The preparation of financial statements requires that management make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Segment Information

During the first quarter of 2008, the Company reorganized its operating structure into a newly created Life Sciences Business Unit, which includes all products and services that are primarily related to the research market, namely the sequencing, BeadArray, and VeraCode product lines. The Company also created a Diagnostics Business Unit to focus on the emerging opportunity in molecular diagnostics. For the year ended January 3, 2010, the Company had limited activity related to the Diagnostics Business Unit and operating results were reported on an aggregate basis to the chief operating decision maker of the Company, the chief executive officer. Accordingly, the Company operated in one segment for the year ended January 3, 2010. The Company will begin reporting in two segments once revenues, operating profit or loss, or assets of the Diagnostics Business Unit exceed 10% of the consolidated amounts.

Cash Equivalents and Investments

Cash equivalents are comprised of short-term, highly liquid investments with maturities of 90 days or less from the date of purchase.

Short-term investments consist of U.S. Treasury and U.S. government agency securities, municipal notes, corporate notes and bonds and commercial paper. Management classifies short-term investments as available-for-sale or trading at the time of purchase and reevaluates such classification as of each balance sheet date. All short-term investments are recorded at estimated fair value. Unrealized gains and losses for available-for-sale and trading securities are included in accumulated other comprehensive income, a component of stockholders' equity, and other income, net, respectively. The Company evaluates its investments to assess whether those with unrealized loss positions are other than temporarily impaired. Impairments are considered to be other than temporary if it is likely that the Company will have to sell the securities before the recovery of their cost basis and it is the Company's intent to do so. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in other income (expense), net in the consolidated statements of operations.

Included in short-term investments are the Company's auction rate securities and a put option related to the Company's settlement agreement with UBS that gives the Company the right to sell its auction rate securities to UBS AG (UBS) at par value during the period of June 30, 2010 through July 2, 2012 (the Settlement). These securities had previously been classified as long-term investments; however, they were reclassified to short-term investments in fiscal 2009 as the Company intends to exercise its right to sell the securities back to UBS during the Settlement period. The auction rate securities are classified as trading securities and both the put option and the auction rate securities are recorded at estimated fair value, with unrealized gains and losses, if any, recognized in other income (expense), net on the consolidated statements of operations. See Note 3 for further detailed discussion.

Fair Value of Financial Instruments

The carrying amounts of financial instruments such as cash equivalents, foreign cash accounts, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued expenses and other current liabilities approximate the related fair values due to the short-term maturities of these instruments. The estimated fair value of the convertible senior notes is determined by using available market information as of the latest trading date prior to the Company's fiscal year-end provided by a third party financial institution. The par value and fair value of the Company's convertible notes was $390.0 million and $553.2 million, respectively, at January 3, 2010 and $400.0 million and $473.0 million, respectively, at December 28, 2008.

Accounts Receivable

Trade accounts receivable are recorded at the net invoice value and are not interest bearing. The Company considers receivables past due based on the contractual payment terms. The Company reviews its exposure to amounts receivable and reserves specific amounts if collectibility is no longer reasonably assured. The Company also reserves a percentage of its trade receivable balance based on collection history and current economic trends that might impact the level of future credit losses. The Company re-evaluates such reserves on a regular basis and adjusts its reserves as needed.

Concentrations of Risk

The Company operates in markets that are highly competitive and rapidly changing. Significant technological changes, shifting customer needs, the emergence of competitive products or services with new capabilities and other factors could negatively impact the Company's operating results.

The Company is also subject to risks related to its financial instruments including its cash and cash equivalents, investments and accounts receivable. Most of the Company's cash and cash equivalents as of January 3, 2010 were deposited with financial institutions in the United States. The Company's investment policy restricts the amount of credit exposure to any one issuer to 5% of the portfolio at the time of purchase and to any one industry sector, as defined by Bloomberg classifications, to 25% of the portfolio at the time of purchase. There is no limit to the percentage of the portfolio that may be maintained in securities issued by the U.S government and money market funds. The Company has historically not experienced significant credit losses from investments and accounts receivable. The Company performs a regular review of customer activity and associated credit risks.

The Company's products require customized components that currently are available from a limited number of sources. The Company obtains certain key components included in its products from single vendors.

Shipments to customers outside the United States comprised 48%, 51% and 43% of the Company's revenue for the years ended January 3, 2010, December 28, 2008 and December 30, 2007, respectively. Customers outside the United States represented 46% and 61% of the Company's net accounts receivable balance as of January 3, 2010 and December 28, 2008, respectively. Sales to territories outside of the United States are generally denominated in U.S. dollars. International sales entail a variety of risks, including currency exchange fluctuations, longer payment cycles and greater difficulty in accounts receivable collection. The Company is also subject to general geopolitical risks, such as political, social and economic instability and changes in diplomatic and trade relations. The risks of international sales are mitigated in part by the extent to which sales are geographically distributed.

Aggregated accounts receivable from one customer comprised more than 10% of gross customer receivable at January 3, 2010.

Inventories

Inventories are stated at the lower of cost (on a first in, first out basis) or market. Inventory includes raw materials and finished goods that may be used in the research and development process and such items are expensed as consumed or expired. Provisions for slow moving, excess and obsolete inventories are provided based on product life cycle and development plans, product expiration and quality issues, historical experience and inventory levels.

Property and Equipment

Property and equipment are stated at cost, subject to review of impairment, and depreciated over the estimated useful lives of the assets (generally three to seven years) using the straight-line method. Amortization of leasehold improvements is computed over the shorter of the lease term or the estimated useful life of the related assets. Maintenance and repairs are charged to operations as incurred. When assets are sold, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in operating expense.

Goodwill, Intangible Assets and Other Long-Lived Assets

Goodwill represents the excess of cost over fair value of net assets acquired. Intangible assets include acquired technology, customer relationships, other license agreements and licensed technology (capitalized as part of the Affymetrix litigation). The cost of identified intangible assets is amortized on a straight-line basis over periods ranging from three to ten years unless the expected benefit pattern is declining, in which case an accelerated method is used.

The Company regularly performs reviews to determine if the carrying values of the long-lived assets are impaired. Goodwill and other intangible assets that have indefinite useful lives are reviewed for impairment at least annually during the second fiscal quarter, or more frequently if an event occurs indicating the potential for impairment. The Company performed its annual impairment test of goodwill in May of 2009, utilizing a test that begins with an estimate of the fair value of the reporting unit or intangible asset, noting no impairment and has determined there have been no impairment indicators for goodwill through January 3, 2010. A review of intangible assets that have finite useful lives and other long-lived assets is performed when an event occurs indicating the potential for impairment. If indicators of impairment exist, the Company assesses the recoverability of the affected long-lived assets by determining whether the carrying amount of such assets exceeds its estimated fair value. If impairment is indicated, the Company compares the carrying amount to the estimated fair value of the asset and adjusts the value of the asset accordingly. Factors that would necessitate an impairment assessment include a significant decline in the Company's stock price and market capitalization compared to its net book value, significant changes in the ability of a particular asset to generate positive cash flows and significant changes in the Company's strategic business objectives and utilization of the asset.

Reserve for Product Warranties

The Company generally provides a one-year warranty on genotyping, gene expression and sequencing systems. Additionally, the Company provides a warranty on its consumable sales through the expiry date, which generally ranges from six to twelve months after the manufacture date. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses based on historical experience as well as anticipated product performance. This expense is recorded as a component of cost of product revenue. Estimated warranty expenses associated with extended maintenance contracts for systems are recorded as a cost of service and other revenue ratably over the term of the maintenance contract. See Note 6 for further detailed discussion.

Revenue Recognition

The Company's revenue is generated primarily from the sale of products and services. Product revenue primarily consists of sales of arrays, reagents, flow cells and instrumentation. Service and other revenue consists of revenue received for performing genotyping and sequencing services, extended warranty sales and amounts earned under research agreements with government grants, which are recognized in the period during which the related costs are incurred.

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable and collectibility is reasonably assured. In instances where final acceptance of the product or system is required, revenue is deferred until all the acceptance criteria have been met. All revenue is recorded net of any discounts.

Revenue for product sales is recognized generally upon shipment and transfer of title to the customer, provided no significant obligations remain and collection of the receivable is reasonably assured. Revenue for genotyping and sequencing services is recognized when earned, which is generally at the time the genotyping or sequencing analysis data is made available to the customer or agreed upon milestones are reached.

In order to assess whether the price is fixed or determinable, the Company ensures there are no refund rights. If payment terms are based on future performance, the Company defers revenue recognition until the price becomes fixed or determinable. The Company assesses collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If the Company determines that collection of a payment is not reasonably assured, revenue recognition is deferred until the time collection becomes reasonably assured, which is generally upon receipt of payment.

Sales of instrumentation generally include a standard one-year warranty. The Company also sells separately priced maintenance (extended warranty) contracts, which are generally for one year, upon the expiration of the initial warranty. Revenue for extended warranty sales is recognized ratably over the term of the extended warranty period. Reserves are provided for estimated product warranty expenses at the time the associated revenue is recognized. If the Company were to experience an increase in warranty claims or if costs of servicing its products under warranty were greater than its estimates, gross margins could be adversely affected.

The Company regularly enters into contracts where revenue is derived from multiple deliverables including any mix of products and/or services. These products and/or services are generally delivered within a short time frame, approximately three to six months, of the contract execution date. Revenue recognition for contracts with multiple deliverables is based on the individual units of accounting determined to exist in the contract. A delivered item is considered a separate unit of accounting when the delivered item has value to the customer on a stand-alone basis. Items are considered to have stand-alone value when they are sold separately by any vendor or when the customer could resell the item on a stand-alone basis.

For transactions entered into during 2009, consideration is allocated at the inception of the contract to all deliverables based on their relative selling price. The relative selling price for each deliverable is determined using vendor specific objective evidence (VSOE) of selling price or third-party evidence of selling price if VSOE does not exist. If neither VSOE nor third-party evidence exists, the Company uses its best estimate of the selling price for the deliverable. See *Recent Accounting Pronouncements* in Note 1 for further information related to the Company's change in authoritative accounting guidance for revenue recognition.

For transactions entered into prior to 2009, consideration was generally allocated to each unit of accounting based upon its relative fair value when objective and reliable evidence of fair value existed for all units of accounting in an arrangement. The fair value of an item was generally the price charged for the product, if the item was regularly sold on a stand-alone basis. In those instances when objective and reliable

evidence of fair value existed for the undelivered items but not for the delivered items, the residual method was used to allocate the arrangement consideration. Under the residual method, the amount of arrangement consideration allocated to the delivered items equaled the total arrangement consideration less the aggregate fair value of the undelivered items. When the Company was unable to establish stand-alone value for delivered items or when fair value of undelivered items had not been established, revenue was deferred until all elements were delivered and services had been performed, or until fair value could objectively be determined for any remaining undelivered elements.

In order to establish VSOE of selling price, the Company must regularly sell the product and/or service on a standalone basis with a substantial majority priced within a relatively narrow range. VSOE of selling price is usually the midpoint of that range. If there is not a sufficient number of standalone sales and VSOE of selling price cannot be determined, then the Company considers whether third party evidence can be used to establish selling price. Due to the lack of similar products and services sold by other companies within the industry, the Company has rarely established selling price using third-party evidence. If neither VSOE nor third party evidence of selling price exists, the Company determines its best estimate of selling price using average selling prices over a rolling 12 month period as well as market conditions. If the product or service has no history of sales, the Company relies upon prices set by the Company's pricing committee adjusted for applicable discounts.

The Company recognizes revenue for delivered elements only when it determines there are no uncertainties regarding customer acceptance. Changes in the allocation of the sales price between delivered and undelivered elements can impact the timing of revenue recognition but do not change the total revenue recognized on any arrangement.

Fair Value Measurements

The Company determines the fair value of its assets and liabilities based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The Company uses a fair value hierarchy with three levels of inputs, of which the first two are considered observable and the last unobservable, to measure fair value:

- *Level 1* — Quoted prices in active markets for identical assets or liabilities.
- *Level 2* — Inputs, other than Level 1, that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- *Level 3* — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents the Company's fair value hierarchy for assets measured at fair value on a recurring basis as of January 3, 2010 (in thousands):

	Level 1	Level 2	Level 3	Total
Debt securities in government sponsored entities	$289,701	$—	$ —	$289,701
Corporate debt securities	192,821	—	—	192,821
Auction rate securities	—	—	54,900	54,900
U.S. Treasury securities	11,472	—	—	11,472
Total assets measured at fair value	$493,994	$—	$54,900	$548,894

Shipping and Handling Expenses

Shipping and handling expenses are included in cost of product revenue and totaled $4.8 million, $3.7 million and $2.2 million for the years ended January 3, 2010, December 28, 2008 and December 30, 2007, respectively.

Research and Development

Research and development expenses consist of costs incurred for internal and grant-sponsored research and development. Research and development expenses include salaries, contractor fees, facilities costs, utilities and allocations of benefits. Expenditures relating to research and development are expensed in the period incurred.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were $4.2 million, $3.4 million and $2.8 million for the years ended January 3, 2010, December 28, 2008 and December 30, 2007, respectively.

Leases

Leases are reviewed and classified as capital or operating at their inception. For leases that contain rent escalations, the Company records the total rent payable on a straight-line basis over the term of the lease, which includes the construction build-out period but excludes lease extension periods. The difference between rent payments and straight-line rent expense is recorded in other long-term liabilities. Landlord allowances are also recorded in other long-term liabilities, which are amortized on a straight-line basis over the lease term as a reduction to rent expense.

Income Taxes

The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and credit carryforwards. Deferred tax assets and liabilities are determined using the enacted tax rates in effect for the years in which those tax assets are expected to be realized. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the provision for income taxes in the period that includes the enactment date.

Deferred tax assets are regularly assessed to determine the likelihood they will be recovered from future taxable income. A valuation allowance is established when the Company believes it is more likely than not the future realization of all or some of a deferred tax asset will not be achieved. In evaluating the ability to recover deferred tax assets within the jurisdiction which they arise the Company considers all available positive and negative evidence. Factors reviewed include the cumulative pre-tax book income for the past three years, scheduled reversals of deferred tax liabilities, history of earnings and reliable forecasting, projections of pre-tax book income over the foreseeable future, and the impact of any feasible and prudent tax planning strategies.

The Company recognizes excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company.

The Company recognizes the impact of a tax position in the financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense.

Functional Currency

Prior to the third quarter of 2008, the Company identified the local currency as the functional currency in each of its foreign subsidiaries, with all translation adjustments recorded as part of other comprehensive income. Beginning in the third quarter of 2008, the Company reorganized its international structure to execute a more efficient relationship between product development, product manufacturing and sales. This reorganization increased the foreign subsidiaries' dependence on the U.S. entity for management decisions, financial support, production assets and inventory, thereby making the foreign subsidiaries a direct and integral component of the U.S. entity's operations. As a result, the Company reassessed the primary economic environment of its foreign subsidiaries, resulting in a U.S. dollar functional currency determination. Beginning in the third quarter of 2008, the Company remeasures its foreign subsidiaries' assets and liabilities and revenue and expense accounts related to monetary assets and liabilities to the U.S. dollar and records the net gains or losses resulting from remeasurement in other income (expense), net in the consolidated statements of operations. Gains resulting from remeasurement were $0.4 million and $1.9 million for the years ended January 3, 2010 and December 28, 2008, respectively. There were no gains or losses resulting from remeasurement in the year ended December 30, 2007.

Derivatives

The Company is exposed to foreign exchange rate risks in the normal course of business. To manage a portion of the accounting exposure resulting from changes in foreign currency exchange rates, the Company enters into foreign exchange contracts to hedge monetary assets and liabilities that are denominated in currencies other than the functional currency of its subsidiaries. These foreign exchange contracts are carried at fair value and do not qualify for hedge accounting treatment and are not designated as hedging instruments. Changes in the value of the derivative are recognized in other income (expense), net, in the consolidated statements of operations for the current period, along with an offsetting gain or loss on the underlying assets or liabilities.

Stock-Based Compensation

The Company uses the Black-Scholes-Merton option-pricing model to estimate the fair value of stock options granted and stock purchases under the Employee Stock Purchase Plan (ESPP). This model incorporates various assumptions including expected volatility, expected option life, expected dividends, and the risk-free interest rates. The Company determines volatility by equally weighing the historical and implied volatility of the Company's common stock. The historical volatility of the Company's common stock over the most recent period is generally commensurate with the estimated expected life of the Company's stock options, adjusted for the impact of unusual fluctuations not reasonably expected to recur and other relevant factors. The implied volatility is calculated from the implied market volatility of exchange-traded call options on the Company's common stock. The expected life of an award is based on historical forfeiture experience, exercise activity, and on the terms and conditions of the stock awards granted to employees.

The assumptions used for the specified reporting periods and the resulting estimates of weighted-average fair value per share of options granted and for stock purchases under the ESPP during those periods are as follows:

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
Interest rate — stock options	1.69 - 1.97%	2.31 - 3.52%	3.68 - 4.90%
Interest rate — stock purchases	0.28 - 2.90%	1.88 - 4.71%	4.71 - 4.86%
Volatility — stock options	55 - 58%	51 - 65%	55-70%
Volatility — stock purchases	48 - 58%	53 - 69%	69 - 76%
Expected life — stock options	5 years	5 - 6 years	6 years
Expected life — stock purchases	6 - 12 months	6 - 12 months	6 - 12 months
Expected dividend yield	0%	0%	0%
Weighted average fair value per share of options granted	$14.79	$18.31	$12.86
Weighted average fair value per share of employee stock purchases	$9.24	$11.45	$7.33

The fair value of restricted stock units granted during the years ended January 3, 2010 and December 28, 2008 was based on the market price of our common stock on the date of grant.

As of January 3, 2010, $153.1 million of total unrecognized compensation cost related to stock options, restricted stock and ESPP shares issued to date is expected to be recognized over a weighted-average period of approximately 1.67 years.

Total share-based compensation expense for employee stock options and stock purchases consists of the following (in thousands, except per share data):

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
Cost of product revenue	$ 4,776	$ 4,710	$ 4,045
Cost of service and other revenue	514	400	279
Research and development	19,960	14,086	10,016
Selling, general and administrative	35,561	28,492	19,406
Share-based compensation expense before taxes	60,811	47,688	33,746
Related income tax benefits	(20,121)	(15,844)	(11,005)
Share-based compensation expense, net of taxes	$ 40,690	$ 31,844	$ 22,741
Net share-based compensation expense per share of common stock:			
Basic	$ 0.33	$ 0.27	$ 0.21
Diluted	$ 0.30	$ 0.24	$ 0.21

Net Income (Loss) per Share

On July 22, 2008, the Company announced a two-for-one stock split in the form of a 100% stock dividend with a record date of September 10, 2008 and a distribution date of September 22, 2008. Share and per share amounts have been restated to reflect the stock split for all periods presented.

Basic net income or loss per share is computed by dividing net income or loss by the weighted-average number of common shares outstanding during the reporting period. Diluted net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the reporting period increased to include dilutive potential common shares using the treasury stock method. Dilutive potential common shares consist of stock options with combined exercise prices and unrecognized compensation expense that are less than the average market price of the Company's common stock, restricted stock units with unrecognized compensation expense, convertible debt when the average market price of the Company's common stock is above the conversion price of $21.83 and warrants with exercise prices that are less than the average market price of the Company's common stock. Under the treasury stock method, the amount that must be paid to exercise stock options and warrants, the amount of compensation expense for future services that the Company has not yet recognized for stock options and restricted stock units and the amount of tax benefits that will be recorded in additional paid-in capital when the awards become deductible are assumed to be used to repurchase shares. In loss periods, basic net loss per share and diluted net loss per share are identical since the effect of dilutive potential common shares is anti-dilutive and therefore excluded.

The following table presents the calculation of weighted-average shares used to calculate basic and diluted net income (loss) per share (in thousands):

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
Weighted-average shares outstanding	123,154	116,855	108,328
Less: Weighted-average shares of common stock subject to repurchase	—	—	(20)
Weighted-average shares used in calculating basic net income (loss) per share	123,154	116,855	108,308
Plus: Effect of dilutive Convertible Senior Notes	6,497	6,653	—
Plus: Effect of dilutive equity awards	4,335	5,373	—
Plus: Effect of dilutive warrants sold in connection with the Convertible Senior Notes	1,566	2,487	—
Plus: Effect of dilutive warrants assumed in the acquisition of Solexa	1,544	2,239	—
Weighted-average shares used in calculating diluted net income (loss) per share	137,096	133,607	108,308
Weighted average shares excluded from calculation due to anti-dilutive effect	924	370	42,882

Comprehensive Income

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on the Company's available-for-sale securities and foreign currency translation adjustments. The Company has disclosed comprehensive income as a component of stockholders' equity.

The components of accumulated other comprehensive income are as follows (in thousands):

	January 3, 2010	December 28, 2008
Foreign currency translation adjustments	$1,338	$1,338
Unrealized gain on available-for-sale securities, net of deferred tax	1,492	1,084
Total other comprehensive income	$2,830	$2,422

Recent Accounting Pronouncements

Adopted Accounting Pronouncements

Convertible Debt Instruments

In May 2008, the Financial Accounting Standards Board (FASB) issued authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. The Company adopted the guidance effective December 29, 2008, impacting the accounting for the Company's convertible senior notes by requiring the Company to account separately for the liability and equity components of the convertible debt. The liability component is measured at its estimated fair value such that the effective interest expense associated with the convertible debt reflects the issuer's borrowing rate at the date of issuance for similar debt instruments without the conversion feature. The difference between the cash proceeds associated with the convertible debt and this estimated fair value is recorded as a debt discount and amortized to interest expense over the life of the convertible debt using the effective interest rate method. Upon application of this guidance, the only change to diluted earnings per share resulted from the effects of increased interest expense and the associated tax effects. The guidance requires retrospective application to the terms of instruments as they existed for all periods presented. See Note 7 for information on the impact of our adoption of the guidance and the assumptions we used to estimate the fair value of the liability component.

Derivatives

In June 2008, the FASB ratified authoritative guidance addressing the accounting for certain instruments (or embedded features) determined to be indexed to an entity's own stock. This guidance provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. The Company adopted this guidance effective December 29, 2008, requiring the Company to perform additional analyses on both its freestanding equity derivatives and embedded equity derivative features. However, the adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

Fair Value of Financial Instruments

In April 2009, the FASB issued additional authoritative guidance on the fair value of financial instruments, which provides:

- further provisions on estimating fair value when the markets become inactive and quoted prices reflect distressed transactions;
- extended disclosure requirements for interim financial statements regarding the fair value of financial instruments; and
- new criteria for recording impairment charges on investments in debt instruments.

The Company adopted the guidance on a prospective basis in the interim period ended June 28, 2009 without material impact on the Company's consolidated financial statements. Refer to Note 3 for further detailed discussion on the fair value of financial instruments.

Accounting for Subsequent Events

In May 2009, the FASB issued authoritative guidance related to general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted this guidance in the interim period ended June 28, 2009 without material impact on the Company's consolidated financial statements.

FASB Codification

In June 2009, the FASB issued authoritative guidance for the FASB Codification to become the source of authoritative, nongovernmental GAAP. The Codification did not change GAAP but reorganizes the literature. The Company adopted this guidance in the interim period ended September 27, 2009 without material impact on the Company's consolidated financial statements.

Revenue Recognition

In September 2009, the FASB ratified authoritative accounting guidance regarding revenue recognition for arrangements with multiple deliverables. The guidance affects the determination of separate units of accounting in arrangements with multiple deliverables and the allocation of transaction consideration to each of the identified units of accounting. Previously, a delivered item was considered a separate unit of accounting when it had value to the customer on a stand-alone basis and there was objective and reliable evidence of the fair value of the undelivered items. The new guidance eliminates the requirement for objective and reliable evidence of fair value to exist for the undelivered items in order for a delivered item to be treated as a separate unit of accounting. The guidance also requires arrangement consideration to be allocated at the inception of the arrangement to all deliverables using the relative-selling-price method and eliminates the use of the residual method of allocation. Under the relative-selling-price method, the selling price for each deliverable is determined using VSOE of selling price or third-party evidence of selling price if VSOE does not exist. If neither VSOE nor third-party evidence of selling price exists for a deliverable, the guidance requires an entity to determine the best estimate of the selling price.

The Company adopted the guidance on a prospective basis in the interim period ended September 27, 2009. Prospective application required the Company to apply the guidance to all revenue arrangements entered into or materially modified since the beginning of fiscal 2009. This prospective application had no impact on the Company's consolidated financial statements for the interim periods ended March 29, 2009 and June 28, 2009. During the third and fourth quarter of 2009, the Company recorded additional revenue of $2.3 million and $5.7 million respectively, which would have been deferred under previous accounting guidance. In future interim and fiscal year periods, the adoption of this guidance may have a material impact on the Company's financial results to the extent the Company enters into arrangements with multiple deliverables and does not have VSOE or third party evidence of selling price for material undelivered elements. Refer to the *Summary of Significant Accounting Principles* in Note 1 for further information on the Company's revenue recognition policies.

In September 2009, the FASB also ratified authoritative accounting guidance requiring the sales of all tangible products containing both software and non-software components that function together to deliver the product's essential functionality to be excluded from the scope of the software revenue guidance. The Company adopted the guidance on a prospective basis during the three months ended September 27, 2009 effective for all periods in 2009. Prior to the adoption of this guidance, the Company assessed all software items included in the Company's product offerings to be incidental to the product itself and, therefore,

excluded all sales from the scope of the related software revenue guidance. As a result, the adoption of this guidance had no impact on the Company's consolidated financial statements.

Definition of a Business

During 2009, the FASB revised guidance related to business combinations, which changed the definition of a business. Previously, a business was defined as having three elements: (i) inputs, (ii) processes applied to those inputs, and (iii) outputs. The new guidance broadens the definition and no longer requires the third element to be present for a set of activities and assets to be considered a business. The Company has adopted this guidance for the interim period ending January 3, 2010. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Fair Value of Liabilities

In August 2009, the FASB issued authoritative guidance related to measuring liabilities at fair value when a quoted price in an active market is not available. This guidance is effective for reporting periods beginning after August 28, 2009. The Company has adopted this guidance in the interim period ending January 3, 2010. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

New Accounting Pronouncements

Variable Interest Entities

In June 2009, the FASB issued authoritative guidance that amends the evaluation criteria to identify the primary beneficiary of a variable interest entity and requires a quarterly reassessment of the treatment of such entities. The guidance also requires additional disclosures about an enterprise's involvement in a variable interest entity. The Company will adopt this guidance in the first interim period of fiscal 2010 and is currently evaluating the impact of the pending adoption on the consolidated financial statements.

2. Balance Sheet Account Details

Accounts receivable consist of the following (in thousands):

	January 3, 2010	December 28, 2008
Accounts receivable from product and service sales	$157,536	$132,564
Other receivables	1,613	1,840
	159,149	134,404
Allowance for doubtful accounts	(1,398)	(1,138)
Total	$157,751	$133,266

Inventory, net, consists of the following (in thousands):

	January 3, 2010	December 28, 2008
Raw materials	$39,144	$32,501
Work in process	51,670	34,063
Finished goods	1,962	6,867
Total inventory, net	$92,776	$73,431

Property and equipment consist of the following (in thousands):

	January 3, 2010	December 28, 2008
Leasehold improvements	$ 55,322	$ 26,637
Manufacturing and laboratory equipment	92,956	83,317
Computer equipment and software	37,071	27,490
Furniture and fixtures	5,993	4,167
	191,342	141,611
Accumulated depreciation and amortization	(74,154)	(52,175)
Total	$117,188	$ 89,436

Depreciation expense was $24.5 million, $17.3 million and $11.5 million for the years ended January 3, 2010, December 28, 2008 and December 30, 2007, respectively.

Accrued liabilities consist of the following (in thousands):

	January 3, 2010	December 28, 2008
Compensation	$32,487	$30,330
Short-term deferred revenue	27,445	15,862
Taxes	12,109	9,456
Reserve for product warranties	10,215	8,203
Customer deposits	6,121	6,583
Accrued royalties	2,552	2,695
Legal and other professional fees	1,818	1,708
Other	5,506	5,518
Total	$98,253	$80,355

3. Short-term investments

The following is a summary of short-term investments (in thousands):

	January 3, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Debt securities in government sponsored entities	$289,101	$ 702	$ (102)	$289,701
Corporate debt securities	190,949	2,039	(166)	192,822
U.S. treasury securities	11,487	12	(28)	11,471
Total available-for-sale securities	491,537	2,753	(296)	493,994
Trading securities:				
Auction rate securities	54,900	—	(6,129)	48,771
Put option	—	6,129	—	6,129
Total trading securities	54,900	6,129	(6,129)	54,900
Total short-term investments	$546,437	$8,882	$(6,425)	$548,894

	December 28, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Debt securities in government sponsored entities	$218,964	$1,544	$ —	$220,508
Corporate debt securities	92,301	547	(305)	92,543
Total	$311,265	$2,091	$(305)	$313,051

Available-For-Sale Securities

As of January 3, 2010, the Company had 38 available-for-sale securities in a gross unrealized loss position, all of which had been in such position for less than twelve months. All impairments are not considered other than temporary as it is likely the Company will not have to sell any securities before the recovery of their cost basis and it is not the Company's intent to do so. The following table shows the fair values and the gross unrealized losses of the Company's available-for-sale securities that were in an unrealized loss position at January 3, 2010 and December 28, 2008 aggregated by investment category (in thousands):

	January 3, 2010		December 28, 2008	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Government sponsored entities	$ 73,783	$(102)	$ —	$ —
Corporate debt securities	26,488	(166)	19,240	(305)
U.S. treasury securities	4,471	(28)	—	—
Total	$104,742	$(296)	$19,240	$(305)

Realized gains and losses are determined based on the specific identification method and are reported in other income (expense), net in the consolidated statements of operations. Gross realized losses on sales of available-for-sale securities were immaterial for the years ended January 3, 2010, December 28, 2008 and December 30, 2007. Gross realized gains on sales of available-for-sale securities totaled $1.0 million and $0.6 million for the years ended January 3, 2010 and December 28, 2008 respectively, and were immaterial for the year ended December 30, 2007.

Contractual maturities of available-for-sale securities at January 3, 2010 were as follows (in thousands):

	Estimated Fair Value
Due within one year	$169,671
After one but within five years	324,323
Total	$493,994

Trading Securities

At January 3, 2010, the Company's trading securities consisted of $54.9 million (at cost) in auction rate securities issued primarily by municipalities and universities. The auction rate securities are held in a brokerage account with UBS Financial Services, Inc., a subsidiary of UBS. These securities are debt instruments with a long-term maturity and with an interest rate that is reset in short intervals through auctions.

The markets for auction rate securities effectively ceased when the vast majority of auctions failed in February 2008, preventing investors from selling these securities. As of January 3, 2010, the securities continued to fail auction and remained illiquid. Changes in the fair value of the Company's auction rate securities from December 28, 2008 through January 3, 2010 are as follows (in thousands):

Fair value as of December 28, 2008	$47,235
Redeemed by issuer	(1,000)
Unrealized Gain(1)	2,536
Fair value as of January 3, 2010	$48,771

(1) Unrealized gains and losses associated with the Company's auction rate securities are classified as other income (expense), net in the consolidated statements of operations for the year ended January 3, 2010.

In determining the fair value of the Company's auction rate securities, the Company considered trades in the secondary market. However, due to the auction failures of the auction rate securities in the marketplace and the lack of trading in the secondary market of these instruments, there was insufficient observable auction rate security market information available to directly determine the fair value of the Company's investments. As a result, the value of these securities and resulting unrealized gain was determined using Level 3 hierarchical inputs. These inputs include management's assumptions of pricing by market participants, including assumptions about risk. The Company used the concepts of fair value based on estimated discounted future cash flows of interest income over a projected 17 year period, which is reflective of the weighted average life of the student loans in the underlying trust. In preparing this model, the Company used historical data of the rates upon which a majority of the auction rate securities' contractual rates were based, such as the LIBOR and average trailing twelve-month 90-day treasury interest rate spreads, to estimate future interest rates. The Company also considered the discount factors, taking into account the credit ratings of the auction rate securities, using a range of discount rates from 5.9% to 7.2%. The Company obtained information from multiple sources, including UBS, to determine a reasonable range of assumptions to use in valuing the auction rate securities. The Company's model was corroborated by a separate comparable cash flow analysis prepared by UBS. To understand the sensitivity of the Company's valuation, the liquidity factor and estimated

remaining life was varied. Variations in those results were evaluated and it was determined the factors and valuation method chosen were reasonable and representative of the Company's auction rate security portfolio.

As a result of the auction rate failures, various regulatory agencies initiated investigations into the sales and marketing practices of several banks and broker-dealers, including UBS, which sold auction rate securities, alleging violations of federal and state laws. Along with several other broker-dealers, UBS subsequently reached a settlement with the federal and state regulators that required them to repurchase auction rate securities from certain investors at par at some future date. In November 2008, the Company signed a settlement agreement granting the Company an option to sell its auction rate securities at par value to UBS during the period of June 30, 2010 through July 2, 2012 (the Settlement). In accepting the Settlement, the Company released UBS from any claims relating to the marketing and sale of auction rate securities. Although the Company expects to sell its auction rate securities under the Settlement, if the Settlement is not exercised before July 2, 2012, it will expire and UBS will have no further rights or obligation to buy the Company's auction rate securities. In lieu of the acceptance of the Settlement, the auction rate securities will continue to accrue interest as determined by the auction process or the terms outlined in the prospectus of the auction rate securities if the auction process fails. In addition to offering to repurchase the Company's auction rate securities, as part of the Settlement, UBS has agreed to provide the Company with a "no net cost" loan up to 75% of the par value of the auction rate securities until June 30, 2010. According to the terms of the Settlement, the interest rate on the loan will approximate the weighted average interest or dividend rate payable to the Company by the issuer of any auction rate securities pledged as collateral.

UBS's obligations under the Settlement are not secured by its assets and do not require UBS to obtain any financing to support its performance obligations under the Settlement. UBS has disclaimed any assurance that it will have sufficient financial resources to satisfy its obligations under the Settlement.

To account for the Settlement, the Company recorded a separate freestanding asset (put option) of $8.7 million and recognized a corresponding gain in earnings during the fourth quarter of 2008. Changes in the fair value of the Company's put option from December 28, 2008 through January 3, 2010 are as follows (in thousands):

Fair value as of December 28, 2008	$ 8,665
Unrealized loss(1)	(2,536)
Fair value as of January 3, 2010	$ 6,129

(1) Unrealized gains and losses associated with the Company's put option are classified as other income (expense), net in the consolidated statements of operations for the year ended January 3, 2010.

Since the put option does not meet the definition of a derivative instrument, the Company elected to measure it at fair value in accordance with authoritative guidance related to the fair value option for financial assets and financial liabilities. The Company valued the put option using a discounted cash flow approach including estimates of interest rates, timing and amount of cash flow, with consideration given to UBS's financial ability to repurchase the auction rate securities beginning June 30, 2010. These assumptions are volatile and subject to change as the underlying sources of these assumptions and market conditions change.

The Company will continue to recognize gains and losses in earnings approximating the changes in the fair value of the auction rate securities at each balance sheet date. These gains and losses are expected to be approximately offset by changes in the fair value of the put option.

The fair value of the auction rate securities and the put option total $54.9 million and $55.9 million at January 3, 2010 and December 28, 2008, respectively. At January 3, 2010, the auction rate securities were classified as short-term investments as the Company intends to exercise the right to sell the securities back to UBS within the next year. At December 28, 2008, the Company classified these securities as long-term assets

since the Company believed it would not able to liquidate its investments without significant loss during the year ended January 3, 2010.

4. Intangible Assets

The Company's intangible assets are comprised primarily of licensed technology from the Affymetrix settlement entered into on January 9, 2008 and acquired core technology and customer relationships from the acquisition of Solexa. As a result of the Affymetrix settlement, the Company agreed, without admitting liability, to make a one-time payment to Affymetrix of $90.0 million. In return, Affymetrix agreed to dismiss with prejudice all lawsuits it had brought against the Company, and the Company agreed to dismiss with prejudice its counterclaims in the relevant lawsuits. Affymetrix also agreed not to sue the Company or its affiliates or customers for making, using or selling any of the Company's current products, evolutions of those products or services related to those products. In addition, Affymetrix agreed that, for four years, it will not sue the Company for making, using or selling the Company's products or services that are based on future technology developments. The covenant not to sue covers all fields other than photolithography, the process by which Affymetrix manufactures its arrays and a field in which the Company does not operate.

Of the total $90.0 million payment made on January 25, 2008, $36.0 million was recorded as licensed technology and classified as an intangible asset. The remaining $54.0 million was charged to expense during the fourth quarter of 2007. This allocation was determined based on the fair value of past and estimated future revenue streams related to the products covered by the patents previously under dispute. The value of the licensed technology is the benefit derived, calculated using estimated discounted cash flows and future revenue projections, from the perpetual covenant not to sue for damages related to the sale of the Company's current products. The effective life of the licensed technology extends through 2015, the final expiry date of all patents considered in valuing the intangible asset. The related amortization is based on the higher of the percentage of usage or the straight-line method. The percentage of usage was determined using actual and projected revenues generated from products covered by the patents previously under dispute.

Acquired core technology and customer relationships are being amortized on a straight-line basis over their effective useful lives of ten and three years, respectively. The amortization of the Company's intangible assets is excluded from cost of product revenue and is separately classified as amortization of intangible assets on the Company's consolidated statements of operations.

The following is a summary of the Company's amortizable intangible assets as of the respective balance sheet dates (in thousands):

	January 3, 2010			December 28, 2008		
	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net
Licensed technology	$36,000	$(11,820)	$24,180	$36,000	$ (7,788)	$28,212
Core technology	23,500	(6,854)	16,646	23,500	(4,504)	18,996
Customer relationships	900	(875)	25	900	(575)	325
License agreements	4,456	(1,519)	2,937	1,154	(932)	222
Total intangible assets, net	$64,856	$(21,068)	$43,788	$61,554	$(13,799)	$47,755

Amortization expense associated with the intangible assets was $6.7 million and $10.4 million for the years ended January 3, 2010 and December 28, 2008, respectively.

The estimated annual amortization of intangible assets for the next five years is shown in the following table (in thousands). Actual amortization expense to be reported in future periods could differ from these estimates as a result of acquisitions, divestitures, asset impairments and other factors.

2010	$ 6,816
2011	6,781
2012	6,770
2013	6,755
2014	6,736
Thereafter	9,930
Total	$43,788

5. Impairment of Manufacturing Equipment

During fiscal 2008, the Company implemented next-generation imaging and decoding systems to be used in manufacturing. These systems were developed to increase existing capacity and allow the Company to transition to the Infinium High-Density (HD) product line. As a result of this transition, the demand for products manufactured on the previous infrastructure was reduced and certain systems were no longer being utilized. A non-cash impairment charge of $4.1 million was recorded in the second quarter of fiscal 2008 for the excess machinery. This charge is included as a separate line item in the Company's consolidated statement of operations. There was no change to useful lives and related depreciation expense of the remaining assets as the Company believes these estimates are currently reflective of the period the assets will be used in operations.

6. Warranties

The Company generally provides a one-year warranty on genotyping, gene expression and sequencing systems. Additionally, the Company provides a warranty on its consumable sales through the expiry date, which generally ranges from six to twelve months after the manufacture date. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses based on historical experience as well as anticipated product performance. This expense is recorded as a component of cost of product revenue. Estimated warranty expenses associated with extended maintenance contracts for systems are recorded as a cost of service and other revenue ratably over the term of the maintenance contract.

Changes in the Company's reserve for product warranties from January 1, 2007 through January 3, 2010 are as follows (in thousands):

Balance as of January 1, 2007	$ 996
Additions charged to cost of revenue	4,939
Repairs and replacements	(2,219)
Balance as of December 30, 2007	3,716
Additions charged to cost of revenue	13,044
Repairs and replacements	(8,557)
Balance as of December 28, 2008	8,203
Additions charged to cost of revenue	14,613
Repairs and replacements	(12,601)
Balance as of January 3, 2010	$ 10,215

7. Convertible Senior Notes

On February 16, 2007, the Company issued $400.0 million principal amount of 0.625% convertible senior notes due 2014. The net proceeds from the offering, after deducting the initial purchasers' discount and offering expenses, were approximately $390.3 million. The Company will pay 0.625% interest per annum on the principal amount of the notes, payable semi-annually in arrears in cash on February 15 and August 15 of each year. The Company made interest payments of $1.2 million on February 15, 2009 and August 15, 2009. The notes mature on February 15, 2014.

The notes will be convertible into cash and, if applicable, shares of the Company's common stock, $0.01 par value per share, based on a conversion rate, subject to adjustment, of 45.8058 shares per $1,000 principal amount of notes (which represents a conversion price of approximately $21.83 per share), only in the following circumstances and to the following extent: (1) during the five business-day period after any five consecutive trading-day period (the measurement period) in which the trading price per note for each day of such measurement period was less than 97% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such day; (2) during any calendar quarter, if the last reported sale price of the Company's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; (3) upon the occurrence of specified events; and (4) at any time on or after November 15, 2013 through the third scheduled trading day immediately preceding the maturity date. The requirements of the second condition above were satisfied during the first, second and third quarters of 2009. Accordingly, the notes were convertible during the period from, and including, April 1, 2009 through, and including, December 31, 2009. Additionally, these same requirements were satisfied during the third quarter of 2008, and, as a result, the notes were convertible during the period from, and including, October 1, 2008 through, and including, December 31, 2008. On December 29, 2008, a noteholder converted notes in an aggregate principal amount of $10.0 million. On February 4, 2009, the settlement date, we paid the noteholder the conversion value of the notes in cash, up to the principal amount of the notes. The excess of the conversion value over the principal amount, totaling $2.9 million, was paid in shares of common stock. This equity dilution upon conversion of the notes was offset by the reacquisition of the shares under the convertible note hedge transactions entered into in connection with the offering of the notes.

The hedge transaction entered with the initial purchasers and/or their affiliates (the hedge counterparties) entitles the Company to purchase up to 18,322,320 shares of the Company's common stock at a strike price of approximately $21.83 per share, subject to adjustment. In addition, the Company sold to these hedge counterparties warrants exercisable, on a cashless basis, for up to 18,322,320 shares of the Company's common stock at a strike price of $31.435 per share, subject to adjustment. The cost of the hedge transaction that was not covered by the proceeds from the sale of the warrants was approximately $46.6 million and was reflected as a reduction of additional paid-in capital. The hedge transaction is expected to reduce the potential equity dilution upon conversion of the notes to the extent the Company exercises the hedge to purchase shares from the hedge counterparties to deliver to converting noteholders. However, the warrants could have a dilutive effect on the Company's earnings per share to the extent that the price of the Company's common stock exceeds the strike price of the warrants.

Impact of the Adoption of Authoritative Guidance Related to Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion

See Note 1 for a description of the Company's adoption of authoritative guidance related to accounting for convertible debt instruments that may be settled in cash upon conversion. The following table summarizes

the effects of this new guidance on the Company's consolidated balance sheets as of January 3, 2010 and its consolidated statements of operations for the year ended January 3, 2010 (in thousands except per share data).

	January 3, 2010 Adjustments
Assets:	
Prepaid expenses and other current assets	$ (2,051)
Deferred tax assets, long-term portion	(38,135)
Total assets	(40,186)
Liabilities and Stockholders' Equity:	
Current portion of long-term debt	(99,797)
Conversion option subject to cash settlement	99,797
Stockholder's equity	(40,186)
Total liabilities and stockholders' equity	(40,186)

	Year Ended January 3, 2010 Adjustments
Income from operations	$ —
Interest expense	(19,656)*
Other income (expense), net	767
Provision for income taxes	(7,691)
Net income	(11,198)
Net income per basic share	(0.09)
Net income per diluted share	(0.08)

* These adjustments include only non-cash interest expense. Cash interest expense for the year ended January 3, 2010 totaled $2.4 million.

In addition, we have included below reconciliations (in thousands, except per share data) between amounts reported in previous filings as of December 28, 2008 to the amounts reported in the current filing for the same period to reflect retroactive adjustments.

	December 28, 2008		
	Pre adoption	Adjustments	Post adoption
Assets:			
Prepaid expenses and other current assets	$ 9,530	$ 4,624	$ 14,154
Deferred tax assets, long-term portion	93,603	(47,361)	46,242
Other assets	12,017	(7,192)	4,825
Total assets	1,377,100	(49,929)	1,327,171
Liabilities and Stockholders' Equity:			
Current portion of long-term debt	399,999	(123,110)	276,889
Conversion option subject to cash settlement	—	123,110	123,110
Stockholder's equity	848,596	(49,929)	798,667
Total liabilities and stockholders' equity	1,377,100	(49,929)	1,327,171

	Year Ended					
	December 28, 2008			December 30, 2007		
	Pre adoption	Adjustments	Post adoption	Pre adoption	Adjustments	Post adoption
Income (loss) from operations	$80,457	$ —	$ 80,457	$(301,201)	$ —	$(301,201)
Interest expense	(3,991)	(18,219)*	(22,210)	(3,562)	(14,735)*	(18,297)
Provision (benefit) for income taxes	40,429	(7,158)	33,271	(10,426)	(5,789)	(16,215)
Net income (loss)	50,477	(11,061)	39,416	(278,359)	(8,946)	(287,305)
Net income (loss) per basic share	0.43	(0.09)	0.34	(2.57)	(0.08)	(2.65)
Net income (loss) per diluted share	0.38	(0.08)	0.30	(2.57)	(0.08)	(2.65)

* These adjustments include only non-cash interest expense. Cash interest expense for the year ended December 28, 2008 and December 30, 2007 totaled $2.6 million and $1.4 million, respectively.

The new guidance requires the carrying amount of the liability component to be estimated by measuring the fair value of a similar liability that does not have an associated conversion feature. As the Company was unable to find any other comparable companies in industry and size with outstanding non-convertible public debt, the Company determined that senior, unsecured corporate bonds represent a similar liability to the convertible senior notes without the conversion option. To measure the fair value of the similar liability at February 16, 2007, the Company estimated an interest rate using assumptions that market participants would use in pricing the liability component, including market interest rates, credit standing, yield curves and volatilities, all of which are defined as Level 2 Observable Inputs. The estimated interest rate of 8.27% was applied to the convertible senior notes and coupon interest using a present value technique to arrive at the fair value of the liability component. The difference between the cash proceeds associated with the convertible debt and this estimated fair value of the liability component is recorded as an equity component. We classified a portion of the equity component as temporary equity measured as the excess of a) the amount of cash that would be required to be paid upon conversion over b) the current carrying amount of the liability-classified component. This amount is reflected within conversion option subject to cash settlement in the consolidated balance sheets.

As of December 28, 2008, the principal amount of the convertible senior notes was $400.0 million and the unamortized discount was $123.1 million resulting in a net carrying amount of the liability component of $276.9 million. As of January 3, 2010, the principal amount of the liability component was $390.0 million due to the conversion of $10.0 million of the notes during the first quarter of 2009. Upon conversion, the Company recorded a gain of $0.8 million in the first quarter of 2009, calculated as the difference between the carrying amount of the converted notes and their estimated fair value as of the settlement date. To measure the fair value of the converted notes as of the settlement date, the Company calculated an interest rate of 11.3% using Level 2 Observable Inputs. This rate was applied to the converted notes and coupon interest rate using the same present value technique used in the issuance date valuation. The unamortized discount on the remaining convertible senior notes as of January 3, 2010 was $99.8 million, resulting in a net carrying amount of $290.2 million. The remaining period over which the discount on the liability component will be amortized is 4.12 years.

8. Commitments

Operating Leases

The Company leases office and manufacturing facilities under various noncancellable operating lease agreements. Facilities leases generally provide for periodic rent increases, and many contain escalation clauses and renewal options. Certain leases require the Company to pay property taxes and routine maintenance. The Company is headquartered in San Diego, California and leases facilities in Hayward, California, the United Kingdom, The Netherlands, Japan, Singapore, Australia and China.

Annual future minimum payments under these operating leases as of January 3, 2010 were as follows (in thousands):

2010	$ 11,668
2011	12,393
2012	12,477
2013	11,907
2014	10,403
Thereafter	89,567
Total	$148,415

Rent expense, net of amortization of the deferred gain on sale of property, was $13.6 million, $10.7 million and $7.7 million for the years ended January 3, 2010, December 28, 2008 and December 30, 2007, respectively.

9. Stockholders' Equity

Common Stock

On July 22, 2008, the Company announced a two-for-one stock split in the form of a 100% stock dividend with a record date of September 10, 2008 and a distribution date of September 22, 2008. Share and per share amounts have been restated to reflect the stock split for all periods presented.

On August 12, 2008, a total of 8,050,000 shares were sold to the public at a public offering price of $43.75 per share, raising net proceeds to the Company of $342.7 million, after deducting underwriting discounts and commissions and offering expenses.

On January 3, 2010, the Company had 119,475,815 shares of common stock outstanding.

Stock Options

On January 3, 2010, the Company had three active stock plans: the 2005 Stock and Incentive Plan (the 2005 Stock Plan), the 2005 Solexa Equity Incentive Plan (the 2005 Solexa Equity Plan) and the New Hire Stock and Incentive Plan. As of January 3, 2010, options to purchase 7,280,267 shares remained available for future grant under the 2005 Stock Plan and 2005 Solexa Equity Plan. There is no set number of shares reserved for issuance under the New Hire Stock and Incentive Plan.

Stock options granted at the time of hire primarily vest over a four or five-year period, with 20% or 25% of options vesting on the first anniversary of the grant date and the remaining options vesting monthly over the remaining vesting period. Stock options granted subsequent to hiring primarily vest monthly over a four or five-year period. Each grant of options has a maximum term of ten years, measured from the applicable grant date, subject to earlier termination if the optionee's service with us ceases. Vesting in all cases is subject to

the individual's continued service to us through the vesting date. The Company satisfies option exercises through the issuance of new shares.

The Company's stock option activity under all stock option plans from January 1, 2007 through January 3, 2010 is as follows:

	Options	Weighted-Average Exercise Price
Outstanding at January 1, 2007	16,718,240	$ 6.97
Options assumed through business combination	2,848,664	$10.69
Granted	7,569,016	$20.32
Exercised	(4,358,572)	$ 6.03
Cancelled	(1,929,480)	$11.19
Outstanding at December 30, 2007	20,847,868	$12.13
Granted	3,091,108	$34.23
Exercised	(4,571,855)	$ 8.52
Cancelled	(1,232,917)	$19.93
Outstanding at December 28, 2008	18,134,204	$16.26
Granted	1,560,024	$28.86
Exercised	(2,965,606)	$10.56
Cancelled	(639,184)	$14.88
Outstanding at January 3, 2010	16,089,438	$18.59

The following is a further breakdown of the options outstanding as of January 3, 2010:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price of Options Exercisable
$0.20-4.26	1,969,183	3.25	$ 3.36	1,602,420	$ 3.15
$4.30-6.85	1,676,898	4.99	$ 5.41	1,449,009	$ 5.31
$6.87-13.30	1,803,330	5.66	$10.75	1,312,461	$10.71
$13.43-17.58	1,624,453	6.90	$15.62	869,862	$15.58
$17.60-19.61	1,371,403	6.87	$18.74	718,826	$18.74
$19.71-20.04	1,888,561	6.96	$20.03	934,462	$20.04
$20.12-27.97	1,673,797	8.09	$24.38	496,340	$23.76
$28.03-32.49	2,197,532	8.20	$29.97	727,353	$30.49
$32.58-41.37	1,624,281	8.29	$35.05	650,680	$35.46
$42.02-44.38	260,000	8.58	$44.11	87,291	$44.09
$0.20-44.38	16,089,438	6.59	$18.59	8,848,704	$15.08

The weighted average remaining life in years of options exercisable is 6.14 years as of January 3, 2010.

The aggregate intrinsic value of options outstanding and options exercisable as of January 3, 2010 was $194.5 million and $107.0 million, respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price per share on the last trading day of the fiscal period, which was $30.68 as

of December 31, 2009, and the exercise price multiplied by the number of options outstanding. Total intrinsic value of options exercised was $73.4 million, $136.6 million and $72.1 million for the years ended January 3, 2010, December 28, 2008 and December 30, 2007, respectively.

Employee Stock Purchase Plan

In February 2000, the board of directors and stockholders adopted the 2000 ESPP. A total of 15,467,426 shares of the Company's common stock have been reserved for issuance under the ESPP. The ESPP permits eligible employees to purchase common stock at a discount, but only through payroll deductions, during defined offering periods.

The price at which stock is purchased under the ESPP is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. The initial offering period commenced in July 2000. In addition, beginning with fiscal 2001, the ESPP provides for annual increases of shares available for issuance by the lesser of 3% of the number of outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year, 3,000,000 shares or such lesser amount as determined by the Company's board of directors. Shares totaling 359,713, 276,198 and 266,962 were issued under the ESPP during fiscal 2009, 2008 and 2007, respectively. As of January 3, 2010, there were 13,434,449 shares available for issuance under the ESPP.

Restricted Stock Units

In 2007 the Company began granting restricted stock units pursuant to its 2005 Stock and Incentive Plan as part of its periodic employee equity compensation review program. Restricted stock units are share awards that, upon vesting, will deliver to the holder shares of the Company's common stock. Restricted stock units granted during 2007 vest over four years as follows: 15% vest on the first and second anniversaries of the grant date, 30% vest on the third anniversary of the grant date and 40% vest on the fourth anniversary of the grant date. Effective January 2008, the Company changed the vesting schedule for grants of new restricted stock units. Currently, restricted stock units vest 15% on the first anniversary of the grant date, 20% on the second anniversary of the grant date, 30% on the third anniversary of the grant date and 35% on the fourth anniversary of the grant date. The Company satisfies restricted stock units vesting through the issuance of new shares.

A summary of the Company's restricted stock unit activity and related information from January 1, 2007 through January 3, 2010 is as follows:

	Restricted Stock Units(1)
Outstanding at December 30, 2007	394,500
Awarded	1,287,504
Vested	(55,638)
Cancelled	(47,090)
Outstanding at December 28, 2008	1,579,276
Awarded	1,292,473
Vested	(246,055)
Cancelled	(116,986)
Outstanding at January 3, 2010	2,508,708

(1) Each stock unit represents the fair market value of one share of common stock.

The weighted average grant-date fair value per share for the restricted stock units was $32.32 and $34.53 for the years ended January 3, 2010 and December 28, 2008, respectively. No restricted stock units were outstanding as of December 30, 2007.

Based on the closing price per share of the Company's common stock of $30.68 on December 31, 2009, the total pretax intrinsic value of all outstanding restricted stock units on that date was $81.1 million.

Warrants

In conjunction with its acquisition of Solexa, Inc. on January 26, 2007, the Company assumed 4,489,686 warrants issued by Solexa prior to the acquisition. During the year ended January 3, 2010, there were 954,376 warrants exercised, resulting in cash proceeds to the Company of approximately $7.6 million. As of January 3, 2010, 252,164 of the assumed warrants had expired.

A summary of all warrants outstanding as of January 3, 2010 is as follows:

Number of Shares	Exercise Price	Expiration Date
16,380	$ 7.27	4/25/2010
307,132	$ 7.27	7/12/2010
732,230	$10.91	11/23/2010
1,027,412	$10.91	1/19/2011
18,322,320(1)	$31.44	2/15/2014
20,405,474		

(1) Represents warrants sold in connection with the offering of the Company's convertible senior notes (See Note 7).

Treasury Stock

In October 2008, the board of directors authorized a $120.0 million stock repurchase program. In fiscal 2008, the Company repurchased 3.1 million shares for $70.8 million under the program.

In July 2009, the board of directors authorized a $75.0 million stock repurchase program and concurrently terminated the $120.0 million stock repurchase program authorized in October 2008. In November 2009, upon the completion of the repurchase program authorized in July 2009, our board of directors authorized an additional $100.0 million stock repurchase program. In fiscal 2009, the Company repurchased a total of 6.1 million shares for $175.1 million under both programs in open-market transactions or through privately negotiated transactions in compliance with Rule 10b-18 under the Securities Exchange Act of 1934.

Stockholder Rights Plan

On May 3, 2001, the board of directors of the Company declared a dividend of one preferred share purchase right (a Right) for each outstanding share of common stock of the Company. The dividend was payable on May 14, 2001 (the Record Date) to the stockholders of record on that date. Each Right entitles the registered holder to purchase from the Company one unit consisting of one-thousandth of a share of its Series A Junior Participating Preferred Stock at a price of $100 per unit. The Rights will be exercisable if a person or group hereafter acquires beneficial ownership of 15% or more of the outstanding common stock of the Company or announces an offer for 15% or more of the outstanding common stock. If a person or group acquires 15% or more of the outstanding common stock of the Company, each Right will entitle its holder to purchase, at the exercise price of the Right, a number of shares of common stock having a market value of

two times the exercise price of the Right. If the Company is acquired in a merger or other business combination transaction after a person acquires 15% or more of the Company's common stock, each Right will entitle its holder to purchase, at the Right's then-current exercise price, a number of common shares of the acquiring company which at the time of such transaction have a market value of two times the exercise price of the Right. The board of directors will be entitled to redeem the Rights at a price of $0.01 per Right at any time before any such person acquires beneficial ownership of 15% or more of the outstanding common stock. The Rights expire on May 14, 2011 unless such date is extended or the Rights are earlier redeemed or exchanged by the Company.

10. Legal Proceedings

From time to time, we are party to litigation and other legal proceedings in the ordinary course, and incidental to the conduct, of our business. While the results of any litigation or other legal proceedings are uncertain, management does not believe the ultimate resolution of any pending legal matters is likely to have a material adverse effect on our financial position or results of operations.

11. Income Taxes

The income (loss) before income taxes summarized by region is as follows (in thousands):

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
United States	$ 65,081	$46,205	$ 43,710
Foreign	49,044	26,482	(347,230)
Total income (loss) before income taxes	$114,125	$72,687	$(303,520)

The provision (benefit) for income taxes consists of the following (in thousands):

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
Current:			
Federal	$ 43,565	$13,868	$ 18,564
State	2,511	2,134	4,801
Foreign	6,204	5,042	(2,172)
Total current provision	52,280	21,044	21,193
Deferred:			
Federal	(14,607)	11,700	(25,071)
State	5,184	901	(12,594)
Foreign	(1,013)	(374)	257
Total deferred provision	(10,436)	12,227	(37,408)
Total tax provision (benefit)	$ 41,844	$33,271	$(16,215)

The provision (benefit) for income taxes reconciles to the amount computed by applying the federal statutory rate to income (loss) before taxes as follows (in thousands):

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
Tax at federal statutory rate	$39,944	$25,440	$(106,232)
State, net of federal benefit	4,275	3,461	(10,304)
Research and other credits	(4,050)	(4,060)	(3,118)
Acquired in-process research & development	4,386	9,508	116,916
Change in valuation allowance	(1,967)	(6,892)	(17,125)
Permanent differences	2,093	1,449	653
Foreign rate adjustments	(5,400)	4,124	3,160
Other	2,563	241	(165)
Total tax provision (benefit)	$41,844	$33,271	$ (16,215)

Significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	January 3, 2010	December 28, 2008
Deferred tax assets:		
Net operating losses	$ 15,869	$ 33,839
Tax credits	18,681	19,139
Other accruals and reserves	17,813	11,341
Stock compensation	25,442	15,962
Inventory capitalization	4,172	3,555
Other amortization	4,216	3,101
Other	10,808	6,612
Total deferred tax assets	97,001	93,549
Valuation allowance on deferred tax assets	(14,852)	(15,200)
Net deferred tax assets	82,149	78,349
Deferred tax liabilities:		
Purchased intangible amortization	(5,043)	(5,985)
Accrued litigation settlements	(3,810)	(11,084)
Convertible debt	(3,901)	(4,905)
Other	(2,810)	(1,498)
Total deferred tax liabilities	(15,564)	(23,472)
Net deferred tax assets	$ 66,585	$ 54,877

A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction-by-jurisdiction basis, and includes a review of all available positive and negative evidence. Based on the available evidence as of January 3, 2010, the Company was not able to conclude it is more likely than not certain U.S. and foreign deferred tax assets will be realized. Therefore, the Company

recorded a valuation allowance of $2.8 million and $12.1 million against certain U.S. and foreign net deferred tax assets, respectively.

As of January 3, 2010, the Company had net operating loss carryforwards for federal and state tax purposes of $25.4 million and $132.1 million, respectively, which begin to expire in 2012 and 2013, respectively, unless previously utilized. In addition, the Company also had U.S. federal and state research and development tax credit carryforwards of $16.0 million and $16.2 million, respectively, which begin to expire in 2018 and 2019, respectively, unless previously utilized.

As of January 3, 2010, the valuation allowance includes $12.3 million of pre-acquisition foreign deferred tax assets of Solexa. In accordance with the adoption of Topic 805 to the extent any of these assets are recognized in the future the adjustment will be recorded as a reduction to the provision for income taxes.

Pursuant to Section 382 and 383 of the Internal Revenue Code, utilization of the Company's net operating loss and credits may be subject to annual limitations in the event of any significant future changes in its ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization. The deferred tax assets as of January 3, 2010 are net of any previous limitations due to Section 382 and 383.

Due to the adoption of SFAS No. 123R, the Company recognizes excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company. During 2009, the Company realized $39.3 million of such excess tax benefits, and accordingly recorded a corresponding credit to additional paid in capital. As of January 3, 2010, the Company has $17.1 million of unrealized excess tax benefits associated with share-based compensation. These tax benefits will be accounted for as a credit to additional paid-in capital, if and when realized, rather than a reduction of the provision for income taxes.

The Company's manufacturing operations in Singapore operate under various tax holidays and incentives that begin to expire in 2018. For the year ended January 3, 2010, these tax holidays and incentives resulted in an approximate $2.3 million decrease to the provision for income taxes and an increase to net income per diluted share of $0.02.

Residual U.S. income taxes have not been provided on $38.6 million of undistributed earnings of foreign subsidiaries as of January 3, 2010, since the earnings are considered to be indefinitely invested in the operations of such subsidiaries.

The following table summarizes the gross amount of the Company's uncertain tax positions (in thousands):

	January 3, 2010	December 28, 2008	December 30, 2007
Balance at beginning of year	$ 9,402	$7,000	$5,381
Increases related to current year tax positions	2,358	2,402	1,619
Balance at end of year	$11,760	$9,402	$7,000

During 2009 the Company determined that $14.4 million of previously reported uncertain tax positions, which related to pre-acquistion net operating loss carryforwards of Solexa, were not uncertain as of the Solexa acquisition in January 2007. Accordingly, the uncertain tax position balances that were previously reported have been reduced by $14.4 million to correctly present the uncertain tax position balances.

As of January 3, 2010, $9.6 million of the Company's uncertain tax positions would reduce the Company's annual effective tax rate, if recognized.

The Company does not expect its uncertain tax positions to change significantly over the next 12 months. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense. As of January 3, 2010, no interest or penalties have been accrued related to the Company's uncertain tax positions. Tax years 1995 to 2009 remain subject to future examination by the major tax jurisdictions in which the Company is subject to tax.

12. Employee Benefit Plans

Retirement Plan

The Company has a 401(k) savings plan covering substantially all of its employees. Company contributions to the plan are discretionary. During the years ended January 3, 2010, December 28, 2008 and December 30, 2007, the Company made matching contributions of $3.3 million, $2.6 million and $1.4 million, respectively.

Executive Deferred Compensation Plan

For the Company's executives and members of the board of directors, the Company adopted the Illumina, Inc. Deferred Compensation Plan (the Plan) that became effective January 1, 2008. Eligible participants can contribute up to 80% of their base salary and 100% of all other forms of compensation into the Plan, including bonus, commission and director fees. The Company has agreed to credit the participants' contributions with earnings that reflect the performance of certain independent investment funds. On a discretionary basis, the Company may also make employer contributions to participant accounts in any amount determined by the Company. The vesting schedules of employer contributions are at the sole discretion of the Compensation Committee. However, all employer contributions shall become 100% vested upon the occurrence of the participant's disability, death or retirement or a change in control of the Company. The benefits under this plan are unsecured. Participants are generally eligible to receive payment of their vested benefit at the end of their elected deferral period or after termination of their employment with the Company for any reason or at a later date to comply with the restrictions of Section 409A. As of January 3, 2010, no employer contributions were made to the Plan.

In January 2008, the Company also established a rabbi trust for the benefit of its directors and executives under the Plan. In accordance with authoritative guidance related to consolidation of variable interest entities and accounting for deferred compensation arrangements where amounts earned are held in a rabbi trust and invested, the Company has included the assets of the rabbi trust in its consolidated balance sheet since the trust's inception. As of January 3, 2010, the assets of the trust and liabilities of the Company were $4.0 million. The assets and liabilities are classified as other assets and accrued liabilities, respectively, on the Company's balance sheet as of January 3, 2010. Changes in the values of the assets held by the rabbi trust accrue to the Company.

13. Segment Information, Geographic Data and Significant Customers

During the first quarter of 2008, the Company reorganized its operating structure into a newly created Life Sciences Business Unit, which includes all products and services related to the research market, namely the sequencing, BeadArray, and VeraCode product lines. The Company also created a Diagnostics Business Unit to focus on the emerging opportunity in molecular diagnostics. For the year ended January 3, 2010, the Company had limited activity related to the Diagnostics Business Unit, and operating results were reported on an aggregate basis to the chief operating decision maker of the Company, the chief executive officer. In

accordance with authoritative guidance for disclosures about segments of an enterprise and related information, the Company operated in one reportable segment for the year ended January 3, 2010.

The Company had revenue in the following regions for the years ended January 3, 2010, December 28, 2008 and December 30, 2007 (in thousands):

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
United States	$347,195	$280,064	$207,692
United Kingdom	55,854	67,973	34,196
Other European countries	140,931	127,397	75,360
Asia-Pacific	96,396	72,740	35,155
Other markets	25,948	25,051	14,396
Total	$666,324	$573,225	$366,799

Net revenues are attributable to geographic areas based on the region of destination.

The majority of our product sales consist of consumables and instruments. For the years ended January 3, 2010, December 28, 2008 and December 30, 2007, consumable sales represented 59%, 58% and 53%, respectively, of total revenues and instrument sales comprised 34%, 32%, and 33%, respectively, of total revenues. Our customers include leading genomic research centers, pharmaceutical companies, academic institutions, clinical research organizations and biotechnology companies. The Company had no customers that provided more than 10% of total revenue in the years ended January 3, 2010, December 28, 2008 and December 30, 2007.

Net long-lived assets exclude goodwill and other intangible assets since they are not allocated on a geographic basis. The Company had net long-lived assets consisting of property and equipment in the following regions as of January 3, 2010 and December 28, 2008(in thousands):

	January 3, 2010	December 28, 2008
United States	$ 75,095	$65,630
United Kingdom	27,862	9,849
Other European countries	864	1,055
Singapore	12,599	12,586
Other Asia-Pacific countries	768	316
Total	$117,188	$89,436

14. Quarterly Financial Information (unaudited)

The following financial information reflects all normal recurring adjustments, except as noted below, which are, in the opinion of management, necessary for a fair statement of the results and cash flows of interim periods. All quarters for 2008 and 2009 were 13 weeks except for the fourth quarter 2009, which was 14 weeks. Summarized quarterly data for fiscal 2009 and 2008 are as follows (in thousands except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2009:				
Total revenue	$165,757	$161,643	$158,360	$180,564
Total cost of revenue (excluding impairment of manufacturing equipment and amortization of intangible assets)	54,022	48,815	49,564	53,368
Net income	18,811	24,688	17,077	11,705
Net income per share, basic	0.15	0.20	0.14	0.10
Net income per share, diluted	0.14	0.18	0.12	0.09
2008:				
Total revenue	$121,861	$140,177	$150,260	$160,927
Total cost of revenue (excluding amortization of intangible assets)	46,081	50,459	54,430	54,654
Net income (loss)(1)	10,743	12,659	(10,078)	26,092
Net income (loss) per share, basic(1)	0.10	0.11	(0.08)	0.21
Net income (loss) per share, diluted(1)	0.08	0.09	(0.08)	0.20

(1) Adjusted for required retroactive adoption of authoritative accounting guidance for convertible debt instruments that may be settled in cash upon conversion effective December 29, 2008.

Exhibit 223

ILLUMINA INC (ILMN)

10-K
Annual report pursuant to section 13 and 15(d)
Filed on 02/28/2011
Filed Period 01/02/2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.
20549

Form 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended January 2, 2011

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to .

Commission file number: 000-30361

Illumina, Inc.

(Exact name of Registrant as Specified in Its Charter)

Delaware	**33-0804655**
(State or other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
9885 Towne Centre Drive, San Diego, California	**92121**
(Address of Principal Executive Offices)	*(zip code)*

Registrant's telephone number, including area code:
(858) 202-4500
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $0.01 par value (including associated Preferred Stock Purchase Rights)	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☑	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of February 4, 2011, there were 127,626,004 shares (excluding 24,868,929 shares held in treasury) of the Registrant's Common Stock outstanding. The aggregate market value of the Common Stock held by non-affiliates of the Registrant as of July 4, 2010 (the last business day of the Registrant's most recently completed second fiscal quarter), based on the closing price for the Common Stock on The NASDAQ Global Select Market on that date, was $3,554,527,753. This amount excludes an aggregate of 41,715,009 shares of Common Stock held by officers and directors and each person known by the Registrant to own 10% or more of the outstanding Common Stock. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, directly or indirectly, to direct or cause the direction of the management or policies of the Registrant, or that the Registrant is controlled by or under common control with such person.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for the annual meeting of stockholders expected to be held on May 10, 2011 are incorporated by reference into Items 10 through 14 of Part III of this Report.

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
	(In thousands, except per share amounts)		
Revenue:			
Product revenue	$ 842,510	$ 627,240	$ 532,390
Service and other revenue	60,231	39,084	40,835
Total revenue	902,741	666,324	573,225
Cost of revenue:			
Cost of product revenue	271,997	190,714	192,868
Cost of service and other revenue	21,399	15,055	12,756
Amortization of intangible assets	7,805	6,680	10,438
Impairment of manufacturing equipment	—	—	4,069
Total cost of revenue	301,201	212,449	220,131
Gross profit	601,540	453,875	353,094
Operating expense:			
Research and development	177,947	140,616	99,963
Selling, general and administrative	220,990	176,337	148,014
Acquisition related (gain) expense, net	(9,051)	11,325	24,660
Total operating expense	389,886	328,278	272,637
Income from operations	211,654	125,597	80,457
Other income (expense):			
Interest income	8,378	11,029	12,519
Interest expense	(24,598)	(23,718)	(22,210)
Other (expense) income, net	(10,055)	1,217	1,921
Total other expense, net	(26,275)	(11,472)	(7,770)
Income before income taxes	185,379	114,125	72,687
Provision for income taxes	60,488	41,844	33,271
Net income	$ 124,891	$ 72,281	$ 39,416
Net income per basic share	$ 1.01	$ 0.59	$ 0.34
Net income per diluted share	$ 0.87	$ 0.53	$ 0.30
Shares used in calculating basic net income per share	123,581	123,154	116,855
Shares used in calculating diluted net income per share	143,433	137,096	133,607

See accompanying notes to consolidated financial statements

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unless the context requires otherwise, references in this report to "Illumina," "we," "us," the "Company," and "our" refer to Illumina, Inc. and its consolidated subsidiaries.

1. Organization and Summary of Significant Accounting Policies

Organization and Business

Illumina, Inc. (the Company) is a leading developer, manufacturer, and marketer of life science tools and integrated systems for the analysis of genetic variation and biological function. Using the Company's proprietary technologies, Illumina provides a comprehensive line of genetic analysis solutions, with products and services that serve a broad range of highly interconnected markets, including sequencing, genotyping, gene expression, and molecular diagnostics. The Company's customers include leading genomic research centers, academic institutions, government laboratories, and clinical research organizations, as well as pharmaceutical, biotechnology, agrigenomics, and consumer genomics companies.

Basis of Presentation

The consolidated financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) and include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Fiscal Year

The Company's fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, September 30, and December 31. The year ended January 2, 2011 was 52 weeks; the year ended January 3, 2010 was 53 weeks; the year ended December 28, 2008 was 52 weeks.

Use of Estimates

The preparation of financial statements requires that management make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Segment Information

The Company is organized in two business segments, the Life Sciences Business Unit and Diagnostics Business Unit. The Life Sciences Business Unit includes all products and services that are primarily related to the research market, namely the product lines based on the Company's sequencing, BeadArray, VeraCode, and real-time polymerase chain reaction (PCR) technologies, and the Diagnostics Business Unit focuses on the emerging opportunity in molecular diagnostics. During all periods presented, the Company had limited activity related to the Diagnostics Business Unit. Accordingly, the Company's operating results for both units are reported on an aggregate basis as one reportable segment during these periods. The Company will begin reporting in two segments once revenues, operating profit or loss, or assets of the Diagnostics Business Unit exceed 10% of the consolidated amounts.

Acquisitions

Effective December 29, 2008, the Company adopted the FASB's revised authoritative guidance for business combinations. This revised guidance requires an acquiring company to measure all assets acquired and liabilities assumed, including contingent considerations and all contractual contingencies, at fair value as of the acquisition date. In addition, an acquiring company is required to capitalize in-process research and development (IPR&D) and either amortize it over the life of the product upon commercialization, or write it

off if the project is abandoned or impaired. Previously, post-acquisition adjustments related to business combination deferred tax asset valuation allowances and liabilities for uncertain tax positions were generally required to be recorded as an increase or decrease to Goodwill. The revised guidance does not permit this accounting and, generally, requires any such changes to be recorded in current period income tax expense. Thus, all changes to valuation allowances and liabilities for uncertain tax positions established in acquisition accounting, regardless of the guidance used to initially account for the business combination, will be recognized in current period income tax expense. Additionally, this guidance requires that contingent purchase consideration be remeasured to estimated fair value at each reporting period with the change in fair value recorded in the results of operations. The impact of the adoption of this guidance did not have an impact on the consolidated financial statements for the year ended January 3, 2010. As a result of acquisitions completed in the year ended January 2, 2011, the Company capitalized $21.4 million of IPR&D that would have been expensed under the previous guidance. In addition the Company recorded $14.1 million of contingent consideration liability at fair value at the acquisition date which was remeasured with a net consolidated statement of income impact of $10.4 million recorded in acquisition related (gain) expense, net, a component of operating expenses.

For an acquisition consummated prior to December 29, 2008, the Company recognizes additional contingent consideration as an additional element of the cost of the acquisition when the contingency is resolved beyond a reasonable doubt and the additional consideration is issued or becomes issuable, in accordance with the accounting guidance effective at the acquisition date. This results in additional IPR&D charges in periods subsequent to the acquisition recorded in acquisition related (gain) expense, net.

Cash Equivalents and Short-Term Investments

Cash equivalents are comprised of short-term, highly liquid investments with maturities of 90 days or less at the date of purchase.

Short-term investments consist of U.S. Treasury and U.S. government agency securities, corporate notes and bonds, and commercial paper. Management classifies short-term investments as available-for-sale at the time of purchase and reevaluates such classification as of each balance sheet date. All short-term investments are recorded at estimated fair value. Unrealized gains and losses for available-for-sale securities are included in accumulated other comprehensive income, a component of stockholders' equity. The Company evaluates its investments to assess whether those with unrealized loss positions are other than temporarily impaired. Impairments are considered to be other than temporary if they are related to deterioration in credit risk or if it is likely that the Company will sell the securities before the recovery of their cost basis. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in other (expense) income, net in the consolidated statements of income.

Fair Value Measurements

The carrying amounts of financial instruments such as cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, and accrued liabilities, excluding acquisition related contingent consideration liability noted below, approximate the related fair values due to the short-term maturities of these instruments. The estimated fair value of the convertible senior notes is determined by using available market information as of the latest trading date prior to the Company's fiscal year-end provided by a third party financial institution. The par value and approximate fair value of the Company's convertible notes was $390.0 million and $1,142.5 million, respectively, at January 2, 2011, and $390.0 million and $553.2 million, respectively, at January 3, 2010.

The Company determines the fair value of its assets and liabilities based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most

advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The Company uses a fair value hierarchy with three levels of inputs, of which the first two are considered observable and the last unobservable, to measure fair value:

- *Level 1* — Quoted prices in active markets for identical assets or liabilities.
- *Level 2* — Inputs, other than Level 1, that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- *Level 3* — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents the Company's fair value hierarchy for assets and liability measured at fair value on a recurring basis as of January 2, 2011 and January 3, 2010, respectively (in thousands):

	January 2, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds (cash equivalent)	$ 148,822	$ —	$ —	$ 148,822
Debt securities in government sponsored entities	—	261,697	—	261,697
Corporate debt securities	—	330,758	—	330,758
U.S. Treasury securities	52,887	—	—	52,887
Total assets measured at fair value	$ 201,709	$ 592,455	$ —	$ 794,164
Liability:				
Acquisition related contingent consideration liability	$ —	$ —	$ 3,738	$ 3,738

	January 3, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds (cash equivalent)	$ 81,153	$ —	$ —	$ 81,153
Debt securities in government sponsored entities		289,701		289,701
Corporate debt securities	—	192,821	—	192,821
Auction rate securities	—	—	54,900	54,900
U.S. Treasury securities	11,472	—	—	11,472
Total assets measured at fair value	$ 92,625	$ 482,522	$ 54,900	$ 630,047

The Company measures the fair value of debt securities in government sponsored entities and corporate debt securities on a recurring basis primarily using quoted prices for similar assets in active markets.

Included in the total consideration transferred for the Company's acquisition of Helixis, Inc. (Helixis), was contingent consideration payments that could range from $0 to $35 million based on the achievement of certain revenue-based milestones by December 31, 2010 and by December 31, 2011. On the acquisition date, a liability of $14.1 million was recorded at the estimated fair value of the contingent consideration. The December 31, 2010 milestone was not achieved and the likelihood of paying the remaining contingent consideration of up to $30 million declined. Accordingly, the Company reassessed the fair value of the

contingent consideration at $3.7 million and recorded the change in fair value of $10.4 million in acquisition related (gain) expense, net, in the consolidated statements of income in the fourth quarter of 2010.

This fair value measurement is a Level 3 measurement as it is based on unobservable inputs that are supported by little or no market activity. Significant assumptions used in the measurement include probabilities of achieving the remaining milestone and the discount rates used in the income approach of valuation, which ranged from 27% to 52% depending on the likelihood assessed. Future changes in the fair value of the contingent consideration as a result of changes in these significant inputs could have a significant effect on the consolidated statements of income and the financial position in the period of the change.

The following table includes a summary of the changes in estimated fair value of the contingent consideration liability (in thousands) during the year ended January 2, 2011:

	Contingent Consideration Liability (Level 3 Measurement)
Balance at January 3, 2010	$ —
Acquisition of Helixis	14,114
Gain recorded in acquisition related (gain) expense, net	(10,376)
Balance at January 2, 2011	$ 3,738

Accounts Receivable

Trade accounts receivable are recorded at the net invoice value and are not interest bearing. The Company considers receivables past due based on the contractual payment terms. The Company reviews its exposure to amounts receivable and reserves specific amounts if collectibility is no longer reasonably assured. The Company also reserves a percentage of its trade receivable balance based on collection history and current economic trends that might impact the level of future credit losses. The Company re-evaluates such reserves on a regular basis and adjusts its reserves as needed.

Concentrations of Risk

The Company operates in markets that are highly competitive and rapidly changing. Significant technological changes, shifting customer needs, the emergence of competitive products or services with new capabilities, and other factors could negatively impact the Company's operating results.

The Company is also subject to risks related to its financial instruments including its cash and cash equivalents, investments, and accounts receivable. Most of the Company's cash and cash equivalents as of January 2, 2011 were deposited with financial institutions in the United States. The Company's investment policy restricts the amount of credit exposure to any one issuer to 5% of the portfolio at the time of purchase and to any one industry sector, as defined by Bloomberg classifications, to 25% of the portfolio at the time of purchase. There is no limit to the percentage of the portfolio that may be maintained in U.S. treasury obligations, U.S. government agencies, and money market funds. The Company performs a regular review of customer activity and associated credit risks and do not require collateral or enter into netting arrangements. The Company has historically not experienced significant credit losses from investments and accounts receivable.

The Company's products require customized components that currently are available from a limited number of sources. The Company obtains certain key components included in its products from single vendors.

Shipments to customers outside the United States comprised 45%, 48%, and 51% of the Company's revenue for the years ended January 2, 2011, January 3, 2010, and December 28, 2008, respectively. Customers outside the United States represented 59% and 46% of the Company's gross trade accounts receivable balance as of January 2, 2011 and January 3, 2010, respectively. Sales to territories outside of the United States are generally denominated in U.S. dollars. International sales entail a variety of risks, including currency exchange fluctuations, longer payment cycles, and greater difficulty in accounts receivable collection. The Company is also subject to general geopolitical risks, such as political, social and economic instability, and changes in diplomatic and trade relations. The risks of international sales are mitigated in part by the extent to which sales are geographically distributed.

Inventory

Inventory is stated at the lower of cost (on a first in, first out basis) or market. Inventory includes raw materials and finished goods that may be used in the research and development process and such items are expensed as consumed or expired. Provisions for slow moving, excess, and obsolete inventories are estimated based on product life cycles, quality issues, historical experience, and usage forecasts.

Property and Equipment

Property and equipment are stated at cost, subject to review of impairment, and depreciated over the estimated useful lives of the assets (generally three to seven years) using the straight-line method. Amortization of leasehold improvements is computed over the shorter of the lease term or the estimated useful life of the related assets. Maintenance and repairs are charged to operations as incurred. When assets are sold, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in operating expense.

Goodwill, Intangible Assets and Other Long-Lived Assets

Goodwill represents the excess of cost over fair value of net assets acquired. The change in the carrying value of goodwill during the year ended January 2, 2011 was due to goodwill recorded in connection with acquisitions consummated in the year. Intangible assets include acquired technology, customer relationships, other license agreements, and licensed technology (capitalized as part of the Affymetrix litigation). The cost of identified intangible assets is amortized on a straight-line basis over periods ranging from three to ten years.

The Company regularly performs reviews to determine if the carrying values of the long-lived assets are impaired. Goodwill and other intangible assets that have indefinite useful lives, such as IPR&D, are reviewed for impairment at least annually during the second fiscal quarter, or more frequently if an event occurs indicating the potential for impairment. The performance of the goodwill impairment test is a two-step process. The first step of the impairment test involves comparing the estimated fair value of the reporting unit with its carrying value, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the Company performs the second step of the goodwill impairment test to determine the amount of loss, which involves comparing the implied fair value of the goodwill with the carrying value of the goodwill. The Company performed its annual impairment test of goodwill in May of 2010, noting no impairment and has determined there have been no impairment indicators for goodwill through January 2, 2011. A review of intangible assets that have finite useful lives and other long-lived assets is performed when an event occurs indicating the potential for impairment. If indicators of impairment exist, the Company assesses the recoverability of the affected long-lived assets by determining whether the carrying amount of such assets exceeds the undiscounted expected future cash flows. If impairment is indicated, the Company compares the carrying amount to the estimated fair value of the asset and adjusts the value of the asset accordingly. Factors that would necessitate an impairment assessment include a significant decline in the Company's stock price

and market capitalization compared to its net book value, significant changes in the ability of a particular asset to generate positive cash flows, and significant changes in the Company's strategic business objectives and utilization of the asset.

Reserve for Product Warranties

The Company generally provides a one-year warranty on instruments. Additionally, the Company provides a warranty on its consumables through the expiry date, which generally ranges from six to twelve months after the manufacture date. The Company establishes an accrual for estimated warranty expenses based on historical experience as well as anticipated product performance. The Company periodically reviews the adequacy of its warranty reserve, and adjusts, if necessary, the warranty percentage and accrual based on actual experience and estimated costs to be incurred. Warranty expense is recorded as a component of cost of product revenue. Warranty expenses associated with extended maintenance contracts for systems are recorded as cost of service and other revenue as incurred. See note "6. Warranties" for further detailed discussion.

Revenue Recognition

The Company's revenue is generated primarily from the sale of products and services. Product revenue primarily consists of sales of instrumentation and consumables used in genetic analysis. Service and other revenue primarily consists of revenue received for performing genotyping and sequencing services, extended warranty sales, and amounts earned under research agreements with government grants, which are recognized in the period during which the related costs are incurred.

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable, and collectibility is reasonably assured. In instances where final acceptance of the product or system is required, revenue is deferred until all the acceptance criteria have been met. All revenue is recorded net of any discounts.

Revenue for product sales is recognized generally upon transfer of title to the customer, provided that no significant obligations remain and collection of the receivable is reasonably assured. Revenue for genotyping and sequencing services is recognized when earned, which is generally at the time the genotyping or sequencing analysis data is made available to the customer or agreed upon milestones are reached.

In order to assess whether the price is fixed or determinable, the Company evaluates whether refund rights exist. If there are refund rights or payment terms based on future performance, the Company defers revenue recognition until the price becomes fixed or determinable. The Company assesses collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If the Company determines that collection of a payment is not reasonably assured, revenue recognition is deferred until receipt of payment.

The Company regularly enters into contracts where revenue is derived from multiple deliverables including any mix of products or services. These products or services are generally delivered within a short time frame, approximately three to six months, of the contract execution date. Revenue recognition for contracts with multiple deliverables is based on the individual units of accounting determined to exist in the contract. A delivered item is considered a separate unit of accounting when the delivered item has value to the customer on a stand-alone basis. Items are considered to have stand-alone value when they are sold separately by any vendor or when the customer could resell the item on a stand-alone basis.

For transactions entered into in 2009 and 2010, consideration is allocated at the inception of the contract to all deliverables based on their relative selling price. The relative selling price for each deliverable is determined using vendor specific objective evidence (VSOE) of selling price or third-party evidence of selling

price if VSOE does not exist. If neither VSOE nor third-party evidence exists, the Company uses its best estimate of the selling price for the deliverable.

For transactions entered into prior to 2009, consideration was generally allocated to each unit of accounting based upon its relative fair value when objective and reliable evidence of fair value existed for all units of accounting in an arrangement. The fair value of an item was generally the price charged for the product, if the item was regularly sold on a stand-alone basis. In those instances when objective and reliable evidence of fair value existed for the undelivered items but not for the delivered items, the residual method was used to allocate the arrangement consideration. Under the residual method, the amount of arrangement consideration allocated to the delivered items equaled the total arrangement consideration less the aggregate fair value of the undelivered items. When the Company was unable to establish stand-alone value for delivered items or when fair value of undelivered items had not been established, revenue was deferred until all elements were delivered and services had been performed, or until fair value could objectively be determined for any remaining undelivered elements.

In order to establish VSOE of selling price, the Company must regularly sell the product or service on a standalone basis with a substantial majority priced within a relatively narrow range. VSOE of selling price is usually the midpoint of that range. If there are not a sufficient number of standalone sales and VSOE of selling price cannot be determined, then the Company considers whether third party evidence can be used to establish selling price. Due to the lack of similar products and services sold by other companies within the industry, the Company has rarely established selling price using third-party evidence. If neither VSOE nor third party evidence of selling price exists, the Company determines its best estimate of selling price using average selling prices over a rolling 12-month period coupled with an assessment of current market conditions. If the product or service has no history of sales or if the sales volume is not sufficient, the Company relies upon prices set by the Company's pricing committee adjusted for applicable discounts. The Company recognizes revenue for delivered elements only when it determines there are no uncertainties regarding customer acceptance.

In the first quarter of 2010, the Company offered an incentive with the launch of the HiSeq 2000 that enabled existing Genome Analyzer customers to trade in their Genome Analyzer and receive a discount on the purchase of a HiSeq 2000. The incentive was limited to customers who had purchased a Genome Analyzer as of the date of the announcement and was the first significant trade-in program offered by the Company. The Company accounts for HiSeq 2000 discounts related to the Genome Analyzer trade-in program in the period in which the HiSeq 2000 revenue is recognized.

Shipping and Handling Expenses

Shipping and handling expenses are included in cost of product revenue.

Research and Development

Research and development expenses consist of costs incurred for internal and grant-sponsored research and development. Research and development expenses include personnel expenses, contractor fees, facilities costs, and utilities. Expenditures relating to research and development are expensed in the period incurred.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were $6.9 million, $4.2 million, and $3.4 million for the years ended January 2, 2011, January 3, 2010, and December 28, 2008, respectively.

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Leases

Leases are reviewed and classified as capital or operating at their inception. For leases that contain rent escalations, the Company records the total rent payable on a straight-line basis over the term of the lease, which includes the construction build-out period but excludes lease extension periods. The difference between rent payments and straight-line rent expense is recorded in other long-term liabilities. Landlord allowances are also recorded in other long-term liabilities, which are amortized on a straight-line basis over the lease term as a reduction to rent expense.

Income Taxes

The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and credit carryforwards. Deferred tax assets and liabilities are determined using the enacted tax rates in effect for the years in which those tax assets are expected to be realized. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the provision for income taxes in the period that includes the enactment date.

Deferred tax assets are regularly assessed to determine the likelihood they will be recovered from future taxable income. A valuation allowance is established when the Company believes it is more likely than not the future realization of all or some of a deferred tax asset will not be achieved. In evaluating the ability to recover deferred tax assets within the jurisdiction which they arise the Company considers all available positive and negative evidence. Factors reviewed include the cumulative pre-tax book income for the past three years, scheduled reversals of deferred tax liabilities, history of earnings and reliable forecasting, projections of pre-tax book income over the foreseeable future, and the impact of any feasible and prudent tax planning strategies.

The Company recognizes excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company.

The Company recognizes the impact of a tax position in the financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense.

Functional Currency

Prior to the third quarter of 2008, the Company identified the local currency as the functional currency in each of its foreign subsidiaries, with all translation adjustments recorded as part of other comprehensive income. Beginning in the third quarter of 2008, the Company reorganized its international structure to execute a more efficient relationship among product development, product manufacturing, and sales. This reorganization increased the foreign subsidiaries' dependence on the U.S. entity for management decisions, financial support, production assets, and inventory, thereby making the foreign subsidiaries a direct and integral component of the U.S. entity's operations. As a result, the Company reassessed the primary economic environment of its foreign subsidiaries, resulting in a U.S. dollar functional currency determination. Beginning in the third quarter of 2008, the Company remeasures its foreign subsidiaries' assets and liabilities and revenue and expense accounts related to monetary assets and liabilities to the U.S. dollar and records the net gains or losses resulting from remeasurement in other (expense) income, net in the consolidated statements of

income. Gains or (losses) resulting from remeasurement were $0.6 million, $(2.3) million, and $3.8 million for the years ended January 2, 2011, January 3, 2010 and December 28, 2008, respectively.

Derivatives

The Company is exposed to foreign exchange rate risks in the normal course of business. To manage a portion of the accounting exposure resulting from changes in foreign currency exchange rates, the Company enters into foreign exchange contracts to hedge monetary assets and liabilities that are denominated in currencies other than the U.S. dollar. These foreign exchange contracts are carried at fair value and do not qualify for hedge accounting treatment and are not designated as hedging instruments. Changes in the value of the derivative are recognized in other (expense) income, net, in the consolidated statements of income for the current period, along with an offsetting gain or loss on the underlying assets or liabilities.

Share-Based Compensation

The Company uses the Black-Scholes-Merton option-pricing model to estimate the fair value of stock options granted and stock purchases under the Employee Stock Purchase Plan (ESPP). This model incorporates various assumptions including expected volatility, expected life of an award, expected dividends, and the risk-free interest rates. The Company determines volatility by equally weighing the historical and implied volatility of the Company's common stock. The historical volatility of the Company's common stock over the most recent period is generally commensurate with the estimated expected life of the Company's stock awards, adjusted for the impact of unusual fluctuations not reasonably expected to recur and other relevant factors. The implied volatility is calculated from the implied market volatility of exchange-traded call options on the Company's common stock. The expected life of an award is based on historical forfeiture experience, exercise activity, and on the terms and conditions of the stock awards. The fair value of restricted stock units granted is based on the market price of our common stock on the date of grant. The Company amortizes the fair value of share-based compensation on a straight-line basis over the requisite service periods of the awards.

The assumptions used for the specified reporting periods and the resulting estimates of weighted-average fair value per share of options granted and for stock purchases under the ESPP during those periods are as follows:

	Years Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
Interest rate — stock options	2.05 - 2.73%	1.69 - 1.97%	2.31 -3.52%
Interest rate stock purchases	0.17 - 0.48%	0.28 - 2.90%	1.88 -4.71%
Volatility — stock options	46 - 48%	55 - 58%	51 - 65%
Volatility — stock purchases	46 - 48%	48 - 58%	53 - 69%
Expected life — stock options	6 years	5 years	5 - 6 years
Expected life — stock purchases	6 - 12 months	6 - 12 months	6 - 12 months
Expected dividend yield	0%	0%	0%
Weighted average fair value per share of options granted	$18.82	$14.79	$18.31
Weighted average fair value per share of employee stock purchases	$11.10	$9.24	$11.45

As of January 2, 2011, approximately $151.8 million of total unrecognized compensation cost related to stock options, restricted stock units, and ESPP shares issued to date is expected to be recognized over a weighted-average period of approximately 2.47 years.

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Total share-based compensation expense for all stock awards consists of the following (in thousands):

	Years Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
Cost of product revenue	$ 5,378	$ 4,776	$ 4,710
Cost of service and other revenue	470	514	400
Research and development	25,428	19,960	14,086
Selling, general and administrative	40,369	35,561	28,492
Share-based compensation expense before taxes	71,645	60,811	47,688
Related income tax benefits	(25,231)	(20,121)	(15,844)
Share-based compensation expense, net of taxes	$ 46,414	$ 40,690	$ 31,844

Net Income per Share

On July 22, 2008, the Company announced a two-for-one stock split in the form of a 100% stock dividend with a record date of September 10, 2008 and a distribution date of September 22, 2008. Share and per share amounts have been restated to reflect the stock split for all periods presented.

Basic net income or loss per share is computed by dividing net income or loss by the weighted-average number of common shares outstanding during the reporting period. Diluted net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the reporting period increased to include dilutive potential common shares using the treasury stock method. Dilutive potential common shares consist of stock options with combined exercise prices and unrecognized compensation expense that are less than the average market price of the Company's common stock, restricted stock units with unrecognized compensation expense, convertible debt when the average market price of the Company's common stock is above the conversion price of $21.83 and warrants with exercise prices that are less than the average market price of the Company's common stock. Under the treasury stock method, the amount that must be paid to exercise stock options and warrants, the average amount of compensation expense for future services that the Company has not yet recognized for stock options and restricted stock units, and the amount of estimated tax benefits that will be recorded in additional paid-in capital when the awards become deductible are assumed to be used to repurchase shares. In loss periods, basic net loss per share and diluted net loss per share are identical since the effect of dilutive potential common shares is anti-dilutive and therefore excluded.

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table presents the calculation of weighted average shares used to calculate basic and diluted net income per share (in thousands):

	Years Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
Weighted average shares outstanding	123,581	123,154	116,855
Plus: Effect of dilutive Convertible Senior Notes	9,058	6,497	6,653
Plus: Effect of dilutive equity awards	4,674	4,335	5,373
Plus: Effect of dilutive warrants sold in connection with the Convertible Senior Notes	5,317	1,566	2,487
Plus: Effect of dilutive warrants assumed in the acquisition of Solexa	803	1,544	2,239
Weighted-average shares used in calculating diluted net income per share	143,433	137,096	133,607
Weighted average shares excluded from calculation due to anti-dilutive effect	1,934	924	370

Accumulated Other Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income. The Company has disclosed comprehensive income as a component of stockholders' equity. Accumulative other comprehensive income on the consolidated balance sheets at January 2, 2011 and January 3, 2010 includes accumulated foreign currency translation adjustments and unrealized gains and losses on the Company's available-for-sale securities.

The components of accumulated other comprehensive income are as follows (in thousands):

	January 2, 2011	January 3, 2010
Foreign currency translation adjustments	$ 1,338	$ 1,338
Unrealized gain on available-for-sale securities, net of deferred tax	427	1,492
Total accumulated other comprehensive income	$ 1,765	$ 2,830

2. Balance Sheet Account Details

Investments

The following is a summary of short-term investments (in thousands):

	January 2, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Debt securities in government sponsored entities	$ 261,890	$ 106	$ (299)	$ 261,697
Corporate debt securities	329,823	1,170	(235)	330,758
U.S. treasury securities	52,938	70	(121)	52,887
Total available-for-sale securities	$ 644,651	$ 1,346	$ (655)	$ 645,342

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	January 3, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Debt securities in government sponsored entities	$ 289,101	$ 702	$ (102)	$ 289,701
Corporate debt securities	190,949	2,039	(166)	192,822
U.S. treasury securities	11,487	12	(28)	11,471
Total available-for-sale securities	491,537	2,753	(296)	493,994
Trading securities:				
Auction rate securities	54,900	—	(6,129)	48,771
Put option	—	6,129	—	6,129
Total trading securities	54,900	6,129	(6,129)	54,900
Total short-term investments	$ 546,437	$ 8,882	$ (6,425)	$ 548,894

Available-For-Sale Securities

As of January 2, 2011 the Company had 83 available-for-sale securities in a gross unrealized loss position, all of which had been in such position for less than twelve months. There were no unrealized losses due to credit issues for the periods presented. There were no impairments considered other-than-temporary as it is more likely than not the Company will hold the securities until maturity or a recovery of the cost basis. The following table shows the fair values and the gross unrealized losses of the Company's available-for- sale securities that were in an unrealized loss position as of January 2, 2011 and January 3, 2010 aggregated by investment category (in thousands):

	January 2, 2011		January 3, 2010	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Debt securities in government sponsored entities	$ 127,756	$ (299)	$ 73,783	$ (102)
Corporate debt securities	92,199	(235)	26,488	(166)
U.S. treasury securities	13,490	(121)	4,471	(28)
Total	$ 233,445	$ (655)	$ 104,742	$ (296)

Realized gains and losses are determined based on the specific identification method and are reported in interest income in the consolidated statements of income. Gross realized gains on sales of available-for sale securities for the year ended January 2, 2011 were $1.7 million and gross realized losses were immaterial. Gross realized gains and losses on sales of available-for-sale securities were immaterial for each of the years ended January 3, 2010 and December 28, 2008.

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Contractual maturities of available-for-sale securities as of January 2, 2011 were as follows (in thousands):

	Estimated Fair Value
Due within one year	$ 230,421
After one but within five years	414,921
Total	$ 645,342

Trading Securities

As of January 3, 2010, the Company's short-term investments included $54.9 million (at cost) of auction rate securities issued primarily by municipalities and universities. In November 2008, the Company signed an agreement granting the Company an option to sell all of its auction rate securities at par value to UBS during the period of June 30, 2010 through July 2, 2012. To account for the option, the Company recorded a separate freestanding asset (put option). On July 1, 2010, the Company exercised its option to sell all of its remaining auction rate securities at par. From January 3, 2010 through July 1, 2010 the increase in the fair value of the auction rate securities was equal to the decrease in the fair value of the put option. As such, no gain or loss was recorded as a result of the exercise of the put option and the sale of the auction rate securities.

Changes in the fair value of the Company's auction rate securities and put option from January 3, 2010 through January 2, 2011 are as follows (in thousands):

Fair value of auction rate securities and put option as of January 3, 2010	54,900
Auction rate securities redeemed by issuer	(32,100)
Auction rate securities sold upon the exercise of put option on July 1, 2010	(22,800)
Fair value as of January 2, 2011	$ —

Cost-Method Investments

As of January 2, 2011 and January 3, 2010, the aggregate carrying amounts of the Company's cost-method investments in non-publicly traded companies were $32.0 million and $19.9 million, respectively. The Company's cost-method investments are assessed for impairment quarterly. The Company does not estimate the fair value of cost-method investments if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investments. See "Investments" in note "5. Impairment" for more information on the impairment of cost-method investments. The Company includes cost-method investments in other long term assets in the consolidated balance sheets.

Accounts Receivable

Accounts receivable consist of the following (in thousands):

	January 2, 2011	January 3, 2010
Accounts receivable from product and service sales	$ 165,117	$ 157,536
Other receivables	2,167	1,613
Total accounts receivable, gross	167,284	159,149
Allowance for doubtful accounts	(1,686)	(1,398)
Total accounts receivable, net	$ 165,598	$ 157,751

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Inventory

Inventory, net, consists of the following (in thousands):

	January 2, 2011	January 3 2010
Raw materials	$ 56,435	$ 39,839
Work in process	73,759	52,059
Finished goods	24,290	11,475
Total inventory, gross	154,484	103,373
Reserve for inventory	(12,273)	(10,597)
Total inventory, net	$ 142,211	$ 92,776

Property and Equipment

Property and equipment consist of the following (in thousands):

	January 2, 2011	January 3, 2010
Leasehold improvements	$ 55,681	$ 55,322
Manufacturing and laboratory equipment	114,108	92,956
Computer equipment and software	41,500	37,071
Furniture and fixtures	6,732	5,993
Leased equipment	13,357	—
Total property and equipment, gross	231,378	191,342
Accumulated depreciation	(101,504)	(74,154)
Total property and equipment, net	$ 129,874	$ 117,188

Depreciation expense was $34.2 million, $24.5 million and $17.3 million for the years ended January 2, 2011, January 3, 2010, and December 28, 2008, respectively.

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	January 2, 2011	January 3, 2010
Accrued compensation expenses	$ 49,368	$ 32,487
Deferred revenue, current portion	45,863	27,445
Reserve for product warranties	16,761	10,215
Customer deposits	14,900	6,121
Accrued taxes payable	13,277	12,109
Acquisition related contingent consideration liability	3,738	—
Accrued royalties	2,781	2,552
Other accrued expenses	9,476	7,324
Total accrued liabilities	$ 156,164	$ 98,253

3. Acquisitions

On April 30, 2010, the Company completed the acquisition of Helixis, a company developing a high-performance, low-cost, real time PCR system used for nucleic acid analysis. Total consideration for the acquisition at the closing date was approximately $86.7 million, including $70.0 million in cash (net of $2.6 million of cash acquired) and $14.1 million for the fair value of contingent consideration payments that could range from $0 to $35 million based on the achievement of certain revenue-based milestones by December 31, 2011. Using information available at the close of the acquisition, the Company allocated approximately $2.3 million of the consideration to tangible assets, net of liabilities, and approximately $28.0 million to identified intangible assets that will be amortized over a useful life of 10 years. The Company also recorded a $10.7 million deferred tax liability to reflect the tax impact of the identified intangible assets that will not generate tax deductible amortization expense and an $8.7 million deferred tax asset which primarily relates to acquired net operating loss carryforwards. The Company recorded the excess consideration of approximately $58.4 million as goodwill, which is not deductible for income tax purposes.

Prior to the acquisition, the Company had an equity interest in Helixis with a cost basis of $2.0 million that was accounted for under the cost method of accounting. The Company recognized a gain of $2.9 million, which was included in other (expense) income, net, in its consolidated statement of income as a result of revaluing the Company's equity interest in Helixis on the acquisition date.

On July 28, 2010, the Company completed an acquisition of another privately-held, development stage entity. Total consideration for the acquisition was $22.0 million. As a result of this transaction, the company recorded an in-process research and development (IPR&D) asset of $21.4 million in other assets (long-term). In determining the fair value of the IPR&D, various factors were considered, such as future revenue contributions, additional research and development costs to be incurred, and contributory asset charges. The fair value of the IPR&D was calculated using an income approach, and the rate used to discount net future cash flows to their present values was based on a risk-adjusted rate of return of approximately 28%. Significant factors considered in the calculation of the rate of return include the weighted average cost of capital, the weighted average return on assets, the internal rate of return, as well as the risks inherent in the development process for development-stage entities of similar sizes.

IPR&D will not be amortized until the development efforts are complete and until then, the Company will perform an annual impairment test of the asset, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test will involve a comparison of the fair value of the asset with its carrying amount. If its carrying amount exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess. Upon completion of the related development efforts, the Company will start amortizing the IPR&D based on an estimated useful life. Through January 2, 2011, there was no indication of impairment of IPR&D and no impairment loss has been recorded.

In 2008, the Company completed an acquisition of another development-stage company. At the time of the acquisition, the Company paid $25.8 million in cash, including transaction costs. In accordance with the applicable accounting guidance effective at that time, the Company recorded a charge of $24.7 million for purchased in-process research and development (IPR&D). As part of the acquisition agreement, Illumina agreed to pay the former shareholders of the entity up to an additional $35.0 million in contingent cash consideration based on the achievement of certain milestones. As contingent consideration payments are made,

they are recorded as IPR&D charges and compensation expenses. IPR&D and compensation expenses related to such contingent consideration recorded in the past three years are as follows (in thousands):

	Years Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
IPR&D(1)	$ 1,325	$ 11,325	$ 24,660
Compensation expense(2)	3,675	3,675	1,531

(1) IPR&D expense is included in acquisition related (gain) expense, net in the consolidated statements of income.
(2) Compensation expense associated with the acquisition is included in research and development expenses in the consolidated statements of income.

4. Intangible Assets

The Company's intangible assets, excluding goodwill, are comprised primarily of licensed technology from the Affymetrix settlement entered into on January 9, 2008, acquired core technology and customer relationships from the acquisition of Solexa, and acquired core technology from the acquisition of Helixis. As a result of the Affymetrix settlement, the Company agreed, without admitting liability, to make a one-time payment to Affymetrix, of which $36.0 million was recorded as licensed technology and classified as an intangible asset. The effective life of the licensed technology extends through 2015, the final expiry date of all patents considered in valuing the intangible asset. Amortization related to the Affymetrix licensed technology is recorded on a straight-line basis.

In connection with the acquisition of Helixis. in April 2010, the Company recorded an additional core technology of $28.0 million with a useful life of approximately 10 years. Acquired core technologies and customer relationships are being amortized on a straight-line basis over their useful lives.

The following is a summary of the Company's amortizable intangible assets as of the respective balance sheet dates (in thousands):

	January 2, 2011				January 3, 2010			
	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net
Licensed technology	8.0	$ 36,000	$ (15,849)	$ 20,151	8.0	$ 36,000	$ (11,820)	$ 24,180
Core technology	10.0	51,500	(10,604)	40,896	10.0	23,500	(6,854)	16,646
Customer relationships	3.0	900	(900)	—	3.0	900	(875)	25
License agreements	8.9	10,654	(1,677)	8,977	7.2	4,456	(1,519)	2,937
Total intangible assets, net		$ 99,054	$ (29,030)	$ 70,024		$ 64,856	$ (21,068)	$ 43,788

Amortization expense associated with the intangible assets was $7.8 million, $6.7 million, and $10.4 million for the years ended January 2, 2011, January 3, 2010, and December 28, 2008, respectively.

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The estimated annual amortization of intangible assets for the next five years is shown in the following table (in thousands). Actual amortization expense to be reported in future periods could differ from these estimates as a result of acquisitions, divestitures, asset impairments, and other factors.

2011	$	10,071
2012		10,285
2013		10,270
2014		10,251
2015		10,251
Thereafter		18,896
Total	$	70,024

5. Impairment

Investments

During the fourth quarter of 2010, the Company determined that a $6.0 million cost-method investment and a related $6.8 million note receivable with interest receivable of $0.4 million were below carrying value and the impairment was other-than-temporary. This determination was based upon continued shortfalls from revenue plans coupled with events in the fourth quarter of fiscal 2010 that created uncertainty regarding the entity's ability to obtain additional funding in a required timeframe for the entity to continue operations. As a result, the Company recorded an impairment charge of $13.2 million in other (expense) income, net in the consolidated statements of income for the year ended January 2, 2011.

Manufacturing Equipment

During the year ended December 28, 2008, the Company implemented next-generation imaging and decoding systems to be used in manufacturing. These systems were developed to increase existing capacity and allow the Company to transition to the Infinium High-Density (HD) product line. As a result of this transition, the demand for products manufactured on the previous infrastructure was reduced and certain systems were no longer being utilized. A non-cash impairment charge of $4.1 million was recorded in the year ended December 28, 2008 for the excess machinery. This charge is included as a separate line item in the Company's consolidated statement of income. There was no change to useful lives and related depreciation expenses of the remaining assets as the Company believes these estimates are currently reflective of the period the assets will be used in operations.

6. Warranties

The Company generally provides a one-year warranty on instruments. Additionally, the Company provides a warranty on its consumables through the expiry date, which generally ranges from six to twelve months after the manufacture date. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses based on historical experience as well as anticipated product performance. The Company periodically reviews the adequacy of our warranty reserve, and adjusts, if necessary, the warranty percentage and accrual based on actual experience and estimated costs to be incurred. Warranty expense is recorded as a component of cost of product revenue. Estimated warranty expenses associated with extended maintenance contracts for systems are recorded as a cost of service and other revenue as incurred.

Changes in the Company's reserve for product warranties from January 1, 2008 through January 2, 2011 are as follows (in thousands):

Balance as of January 1, 2008	$ 3,716
Additions charged to cost of revenue	13,044
Repairs and replacements	(8,557)
Balance as of December 28, 2008	8,203
Additions charged to cost of revenue	14,613
Repairs and replacements	(12,601)
Balance as of January 3, 2010	10,215
Additions charged to cost of revenue	25,146
Repairs and replacements	(18,600)
Balance as of January 2, 2011	$ 16,761

7. Convertible Senior Notes

On February 16, 2007, the Company issued $400.0 million principal amount of 0.625% convertible senior notes due 2014. The net proceeds from the offering, after deducting the initial purchasers' discount and offering expenses, were approximately $390.3 million. The Company pays 0.625% interest per annum on the principal amount of the notes, payable semi-annually in arrears in cash on February 15 and August 15 of each year. The notes mature on February 15, 2014.

The notes are convertible into cash and, if applicable, shares of the Company's common stock, $0.01 par value per share, based on a conversion rate, subject to adjustment, of 45.8058 shares per $1,000 principal amount of notes (which represents a conversion price of approximately $21.83 per share), only in the following circumstances and to the following extent: (1) during the five business-day period after any five consecutive trading-day period (the measurement period) in which the trading price per note for each day of such measurement period was less than 97% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such day; (2) during any calendar quarter, if the last reported sale price of the Company's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; (3) upon the occurrence of specified events; and (4) at any time on or after November 15, 2013 through the third scheduled trading day immediately preceding the maturity date. The requirements of the second condition above were satisfied during each of the calendar quarters of 2010 and the first, second and third quarters of 2009. Accordingly, the notes were and continue to be convertible during the period from, and including, April 1, 2009 through, and including, December 31, 2009 and again during the period April 1, 2010 through, and including, March 31, 2011. Additionally, these same requirements were satisfied during the third quarter of 2008, and, as a result, the notes were convertible during the period from, and including, October 1, 2008 through, and including, December 31, 2008. On December 29, 2008, a noteholder converted notes in an aggregate principal amount of $10.0 million. On February 4, 2009, the settlement date, we paid the noteholder the conversion value of the notes in cash, up to the principal amount of the notes. The excess of the conversion value over the principal amount, totaling $2.9 million, was paid in shares of common stock. This equity dilution upon conversion of the notes was offset by the reacquisition of the shares under the convertible note hedge transactions entered into in connection with the offering of the notes.

The hedge transaction entered with the initial purchasers and/or their affiliates (the hedge counterparties) entitles the Company to purchase up to 18,322,320 shares of the Company's common stock at a strike price of approximately $21.83 per share, subject to adjustment. In addition, the Company sold to these hedge

counterparties warrants exercisable, on a cashless basis, for up to 18,322,320 shares of the Company's common stock at a strike price of $31.435 per share, subject to adjustment. The cost of the hedge transaction that was not covered by the proceeds from the sale of the warrants was approximately $46.6 million and was reflected as a reduction of additional paid-in capital. The hedge transaction is expected to reduce the potential equity dilution upon conversion of the notes to the extent the Company exercises the hedge to purchase shares from the hedge counterparties to deliver to converting noteholders. However, the warrants could have a dilutive effect on the Company's earnings per share to the extent that the price of the Company's common stock exceeds the strike price of the warrants.

As of January 2, 2011, the principal amount of the convertible senior notes was $390.0 million due to conversion of $10.0 million of the notes during the first quarter of 2009. The unamortized discount was $78.4 million resulting in a net carrying amount of the liability component of $311.6 million. As of January 3, 2010, the principal amount of the notes was $390.0 million and the unamortized discount was $99.8 million, resulting in a net carrying amount of the liability of $290.2 million. Upon the conversion, the Company recorded a gain of $0.8 million in the first quarter of 2009, calculated as the difference between the carrying amount of the converted notes and their estimated fair value as of the settlement date. To measure the fair value of the converted notes as of the settlement date, the Company calculated an interest rate of 11.3% using Level 2 Observable Inputs. This rate was applied to the converted notes and coupon interest rate using the same present value technique used in the issuance date valuation. The remaining period over which the discount on the liability component will be amortized is 3.12 years.

8. Commitments

Operating Leases

The Company leases office and manufacturing facilities under various noncancellable operating lease agreements. Facility leases generally provide for periodic rent increases, and many contain escalation clauses and renewal options. Certain leases require the Company to pay property taxes and routine maintenance. The Company is headquartered in San Diego, California and leases facilities in San Diego, California; Hayward, California; Carlsbad, California; Branford, Connecticut; the United Kingdom; the Netherlands; Japan; Singapore; Australia; and China.

Annual future minimum payments under these operating leases as of January 2, 2011 were as follows (in thousands):

2011	$	13,965
2012		15,237
2013		22,500
2014		20,926
2015		20,059
Thereafter		406,574
Total	$	499,261

Rent expense, net of amortization of the deferred gain on sale of property, was $14.7 million, $13.6 million, and $10.7 million for the years ended January 2, 2011, January 3, 2010, and December 28, 2008, respectively.

On December 30, 2010, the Company entered into a lease agreement for a new corporate headquarters facility located in San Diego, California. The lease has a target commencement date of November 1, 2011 and has an initial term of 20 years with four five-year options to extend. There is a one-time option to terminate the lease after 15 years in exchange for an early termination fee. The lease includes two existing office

buildings and a central plant building with approximately 346,600 square feet. The Company has also agreed to lease a third office building to be built at this facility containing approximately 123,400 rentable square feet. The Company has the right to further expand the premises and lease one or more of three additional office buildings that may be built at this facility. Included in the table above are future minimum lease payments during the initial term of the lease, which are expected to total approximately $355.9 million, excluding further expansion beyond the third building, and taking no consideration of tenant improvement allowances of approximately $21.9 million. The Company will capitalize the leasehold improvements and amortize them over the shorter of the lease term or their expected useful life. The leasehold improvement allowances will reduce rent expense over the initial lease term.

Lease commitments of $108.3 million related to the lease for the Company's current headquarters are also included in the table above. The Company plans to cease the use of the facility near the end of 2011 and the Company is further obligated for certain ongoing operating costs prior to any sublease that may be obtained. Upon cease-use of the facility, the Company will record an estimated loss for the present value of the expected shortfall between the remaining lease payments obligation and estimated sublease rental during the remaining lease period, adjusted for deferred rents and leasehold improvements.

9. Stockholders' Equity

Common Stock

On July 22, 2008, the Company announced a two-for-one stock split in the form of a 100% stock dividend with a record date of September 10, 2008 and a distribution date of September 22, 2008. Share and per share amounts have been restated to reflect the stock split for all periods presented.

On August 12, 2008, a total of 8,050,000 shares were sold to the public at a public offering price of $43.75 per share, raising net proceeds to the Company of $342.7 million, after deducting underwriting discounts and commissions and offering expenses.

On January 2, 2011, the Company had 126,606,851 shares of common stock outstanding, excluding treasury shares.

Stock Options

On January 2, 2011, the Company had three active stock plans: the 2005 Stock and Incentive Plan (the 2005 Stock Plan), the 2005 Solexa Equity Incentive Plan (the 2005 Solexa Equity Plan), and the New Hire Stock and Incentive Plan. As of January 2, 2011, options to purchase 7,535,584 shares remained available for future grant under the 2005 Stock Plan and 2005 Solexa Equity Plan. There is no set number of shares reserved for issuance under the New Hire Stock and Incentive Plan.

Stock options granted at the time of hire primarily vest over a four or five-year period, with 20% or 25% of options vesting on the first anniversary of the grant date and the remaining options vesting monthly over the remaining vesting period. Stock options granted subsequent to hiring primarily vest monthly over a four or five-year period. Each grant of options has a maximum term of ten years, measured from the applicable grant date, subject to earlier termination if the optionee's service with us ceases. Vesting in all cases is subject to the individual's continued service to us through the vesting date. The Company satisfies option exercises through the issuance of new shares.

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company's stock option activity under all stock option plans from January 1, 2008 through January 2, 2011 is as follows:

	Options	Weighted-Average Exercise Price	Weighted Average Grant-Date Fair Value per Share
Outstanding at January 1, 2008	20,847,868	$ 12.13	$ 8.13
Granted	3,091,108	34.23	18.01
Exercised	(4,571,855)	8.52	6.02
Cancelled	(1,232,917)	19.93	11.18
Outstanding at December 28, 2008	18,134,204	16.26	10.08
Granted	1,560,024	28.86	14.74
Exercised	(2,965,606)	10.56	7.21
Cancelled	(639,184)	14.88	9.82
Outstanding at January 3, 2010	16,089,438	18.59	11.07
Granted	2,045,489	39.11	18.82
Exercised	(5,541,276)	16.65	10.08
Cancelled	(711,350)	21.76	11.78
Outstanding at January 2, 2011	11,882,301	$ 22.83	$ 12.82

At January 2, 2011, outstanding options to purchase 6,950,184 shares were exercisable with a weighted average per share exercise price of $17.70. The weighted average remaining life in years of options outstanding and exercisable is 6.51 years and 5.67 years, respectively, as of January 2, 2011.

The aggregate intrinsic value of options outstanding and options exercisable as of January 2, 2011 and January 3, 2010 was $481.4 million and $317.2 million, respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price per share on the last trading day of the fiscal period, which was $63.34 as of December 31, 2010, and the exercise price multiplied by the number of options outstanding. Total intrinsic value of options exercised was $156.9 million, $73.4 million, and $136.6 million for the years ended January 2, 2011, January 3, 2010, and December 28, 2008, respectively.

Employee Stock Purchase Plan

In February 2000, the board of directors and stockholders adopted the 2000 ESPP. A total of 15,467,426 shares of the Company's common stock have been reserved for issuance under the ESPP. The ESPP permits eligible employees to purchase common stock at a discount, but only through payroll deductions, during defined offering periods.

The price at which stock is purchased under the ESPP is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. The initial offering period commenced in July 2000. In addition, beginning with fiscal 2001, the ESPP provides for annual increases of shares available for issuance by the lesser of 3% of the number of outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year, 3,000,000 shares or such lesser amount as determined by the Company's board of directors. Shares totaling 372,544, 359,713, and 276,198 were issued under the ESPP during fiscal 2010, 2009, and 2008, respectively. As of January 2, 2011 and January 3, 2010, there were 16,061,905 shares and 13,434,499 shares available for issuance under the ESPP, respectively.

Restricted Stock Units

In 2007 the Company began granting restricted stock units (RSUs), pursuant to its 2005 Stock and Incentive Plan as part of its periodic employee equity compensation review program. RSUs are share awards that, upon vesting, will deliver to the holder shares of the Company's common stock. RSUs generally vest 15% on the first anniversary of the grant date, 20% on the second anniversary of the grant date, 30% on the third anniversary of the grant date, and 35% on the fourth anniversary of the grant date. The Company satisfies RSU vesting through the issuance of new shares.

A summary of the Company's RSU activity and related information from January 1, 2008 through January 2, 2011 is as follows:

	Restricted Stock Units(1)	Weighted Average Grant-Date Fair Value per Share
Outstanding at January 1, 2008	394,500	$ 25.68
Awarded	1,287,504	34.53
Vested	(55,638)	25.67
Cancelled	(47,090)	32.85
Outstanding at December 28, 2008	1,579,276	32.68
Awarded	1,292,473	32.25
Vested	(246,055)	32.33
Cancelled	(116,986)	33.19
Outstanding at January 3, 2010	2,508,708	32.45
Awarded	1,353,583	50.74
Vested	(510,113)	32.10
Cancelled	(242,946)	33.36
Outstanding at January 2, 2011	3,109,232	$ 40.39

(1) Each RSU represents the fair market value of one share of common stock.

Based on the closing price per share of the Company's common stock of $63.34 and $30.68 on December 31, 2010 and December 31, 2009, respectively, the total pretax intrinsic value of all outstanding RSUs as of January 2, 2011 and January 3, 2010 was $125.6 million and $81.1 million, respectively.

Warrants

In conjunction with its acquisition of Solexa, Inc. on January 26, 2007, the Company assumed 4,489,686 warrants issued by Solexa prior to the acquisition. During the year ended January 2, 2011, there were 1,577,712 warrants exercised, resulting in cash proceeds to the Company of approximately $16.0 million.

A summary of all warrants outstanding as of January 2, 2011 is as follows:

Number of Shares	Exercise Price	Expiration Date
505,442	$ 10.91	1/19/2011
18,322,320(1)	$ 31.44	2/15/2014
18,827,762		

(1) Represents warrants sold in connection with the offering of the Company's convertible senior notes (See note "7. Convertible Senior Notes").

Treasury Stock

In October 2008, the board of directors authorized a $120.0 million stock repurchase program. In fiscal 2008, the Company repurchased 3.1 million shares for $70.8 million under the program.

In July 2009, the board of directors authorized a $75.0 million stock repurchase program and concurrently terminated the $120.0 million stock repurchase program authorized in October 2008. In November 2009, upon the completion of the repurchase program authorized in July 2009, our board of directors authorized an additional $100.0 million stock repurchase program. In fiscal 2009, the

Company repurchased a total of 6.1 million shares for $175.1 million, under both programs in open-market transactions or through privately negotiated transactions in compliance with Rule 10b-18 under the Securities Exchange Act of 1934. This program expired at the end of 2009.

In July 2010, the Company's board of directors authorized a $200 million stock repurchase program, with $100 million allocated to repurchasing Company common stock under a 10b5-1 plan over a 12 month period and $100 million allocated to repurchasing Company common stock at management's discretion during open trading windows. In fiscal 2010, the Company repurchased 0.8 million shares for $44.0 million under the program authorized in July 2010.

Stockholder Rights Plan

On May 3, 2001, the board of directors of the Company declared a dividend of one preferred share purchase right (a Right) for each outstanding share of common stock of the Company. The dividend was payable on May 14, 2001 to the stockholders of record on that date. Each Right entitles the registered holder to purchase from the Company one unit consisting of one-thousandth of a share of its Series A Junior Participating Preferred Stock at a price of $100 per unit. The Rights will be exercisable if a person or group hereafter acquires beneficial ownership of 15% or more of the outstanding common stock of the Company or announces an offer for 15% or more of the outstanding common stock. If a person or group acquires 15% or more of the outstanding common stock of the Company, each Right will entitle its holder to purchase, at the exercise price of the Right, a number of shares of common stock having a market value of two times the exercise price of the Right. If the Company is acquired in a merger or other business combination transaction after a person acquires 15% or more of the Company's common stock, each Right will entitle its holder to purchase, at the Right's then-current exercise price, a number of common shares of the acquiring company which at the time of such transaction have a market value of two times the exercise price of the Right. The board of directors will be entitled to redeem the Rights at a price of $0.01 per Right at any time before any such person acquires beneficial ownership of 15% or more of the outstanding common stock. The Rights expire on May 14, 2011 unless such date is extended or the Rights are earlier redeemed or exchanged by the Company.

10. Legal Proceedings

From time to time, the Company is party to litigation and other legal proceedings in the ordinary course, and incidental to the conduct, of its business. While the results of any litigation or other legal proceedings are uncertain, the Company does not believe the ultimate resolution of any pending legal matters is likely to have a material adverse effect on its financial position or results of operations.

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

11. Income Taxes

The income before income taxes summarized by region is as follows (in thousands):

	Years Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
United States	$ 109,068	$ 65,081	$ 46,205
Foreign	76,311	49,044	26,482
Total income before income taxes	$ 185,379	$ 114,125	$ 72,687

The provision for income taxes consists of the following (in thousands):

	Years Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
Current:			
Federal	$ 39,476	$ 43,565	$ 13,868
State	8,607	2,511	2,134
Foreign	6,330	6,204	5,042
Total current provision	54,413	52,280	21,044
Deferred:			
Federal	6,557	(14,607)	11,700
State	(6,808)	5,184	901
Foreign	6,326	(1,013)	(374)
Total deferred provision (benefit)	6,075	(10,436)	12,227
Total tax provision	$ 60,488	$ 41,844	$ 33,271

The provision for income taxes reconciles to the amount computed by applying the federal statutory rate to income before taxes as follows (in thousands):

	Years Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
Tax at federal statutory rate	$ 64,881	$ 39,944	$ 25,440
State, net of federal benefit	6,231	4,275	3,461
Research and other credits	(5,859)	(4,050)	(4,060)
Acquired in-process research & development	517	4,386	9,508
Change in valuation allowance	(9,497)	(1,967)	(6,892)
Permanent differences	1,397	2,093	1,449
Change in fair value of contingent consideration	(3,632)	—	—
Impact of foreign operations	7,597	(5,400)	4,124
Other	(1,147)	2,563	241
Total tax provision	$ 60,488	$ 41,844	$ 33,271

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	January 2, 2011	January 3, 2010
Deferred tax assets:		
Net operating losses	$ 11,898	$ 15,869
Tax credits	18,329	18,681
Other accruals and reserves	22,134	17,813
Stock compensation	23,829	25,442
Impairment of cost-method investment	5,058	—
Other amortization	4,893	4,216
Other	4,643	14,980
Total deferred tax assets	90,784	97,001
Valuation allowance on deferred tax assets	(4,986)	(14,852)
Net deferred tax assets	85,798	82,149
Deferred tax liabilities:		
Purchased intangible amortization	(22,605)	(5,043)
Accrued litigation settlements	(3,276)	(3,810)
Convertible debt	(3,191)	(3,901)
Other	(3,861)	(2,810)
Total deferred tax liabilities	(32,933)	(15,564)
Net deferred tax assets	$ 52,865	$ 66,585

A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction-by-jurisdiction basis, and includes a review of all available positive and negative evidence. During 2010, the valuation allowance decreased by $9.9 million primarily due to increased profitability of certain foreign subsidiaries related to the corporate restructuring implemented during the fourth quarter. Based on the available evidence as of January 2, 2011, the Company was not able to conclude it is more likely than not certain U.S. and foreign deferred tax assets will be realized. Therefore, the Company recorded a valuation allowance of $1.9 million and $3.1 million against certain U.S. and foreign net deferred tax assets, respectively.

As of January 2, 2011, the Company had net operating loss carryforwards for federal and state tax purposes of $37.5 million and $161.7 million, respectively, which begin to expire in 2020 and 2017, respectively, unless utilized prior. In addition, the Company also had U.S. federal and state research and development tax credit carryforwards of $13.7 million and $28.7 million, respectively, which begin to expire in 2027 and 2019, respectively, unless utilized prior.

Pursuant to Section 382 and 383 of the Internal Revenue Code, utilization of the Company's net operating loss and credits may be subject to annual limitations in the event of any significant future changes in its ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization. The deferred tax assets as of January 2, 2011 are net of any previous limitations due to Section 382 and 383.

The Company recognizes excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation

have been realized, the Company follows the with-and-without approach excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company. During 2010, the Company realized $42.4 million of such excess tax benefits, and accordingly recorded a corresponding credit to additional paid in capital. As of January 2, 2011, the Company has $16.7 million of unrealized excess tax benefits associated with share-based compensation. These tax benefits will be accounted for as a credit to additional paid-in capital, if and when realized, rather than a reduction of the provision for income taxes.

The Company's manufacturing operations in Singapore operate under various tax holidays and incentives that begin to expire in 2018. For the year ended January 2, 2011, these tax holidays and incentives resulted in an approximate $2.3 million decrease to the provision for income taxes and an increase to net income per diluted share of $0.02.

Residual U.S. income taxes have not been provided on $66.0 million of undistributed earnings of foreign subsidiaries as of January 2, 2011, since the earnings are considered to be indefinitely invested in the operations of such subsidiaries.

The following table summarizes the gross amount of the Company's uncertain tax positions (in thousands):

	January 2, 2011	January 3, 2010	December 28, 2008
Balance at beginning of year	$ 11,760	$ 9,402	$ 7,000
Increases related to prior year tax positions	5,066	—	—
Increases related to current year tax positions	5,903	2,358	2,402
Balance at end of year	$ 22,729	$ 11,760	$ 9,402

As of January 2, 2011, $18.3 million of the Company's uncertain tax positions would reduce the Company's annual effective tax rate, if recognized.

The Company does not expect its uncertain tax positions to change significantly over the next 12 months. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense. As of January 2, 2011, minimal interest was accrued related to the Company's uncertain tax positions. Tax years 1995 to 2010 remain subject to future examination by the major tax jurisdictions in which the Company is subject to tax.

12. Employee Benefit Plans

Retirement Plan

The Company has a 401(k) savings plan covering substantially all of its employees. Company contributions to the plan are discretionary. During the years ended January 2, 2011, January 3, 2010, and December 28, 2008, the Company made matching contributions of $4.2 million, $3.3 million, and $2.6 million, respectively.

Deferred Compensation Plan

The Company adopted the Illumina, Inc. Deferred Compensation Plan (the Plan) that became effective January 1, 2008. Eligible participants, which include the Company's senior level employees and members of the board of directors, can contribute up to 80% of their base salary and 100% of all other forms of compensation into the Plan, including bonus, equity awards, commission and director fees. The Company has agreed to credit the participants' contributions with earnings that reflect the performance of certain

independent investment funds. On a discretionary basis, the Company may also make employer contributions to participant accounts in any amount determined by the Company. The vesting schedules of employer contributions are at the sole discretion of the Compensation Committee. However, all employer contributions shall become 100% vested upon the occurrence of the participant's disability, death or retirement or a change in control of the Company. The benefits under this plan are unsecured. Participants are generally eligible to receive payment of their vested benefit at the end of their elected deferral period or after termination of their employment with the Company for any reason or at a later date to comply with the restrictions of Section 409A. As of January 2, 2011, no employer contributions were made to the Plan.

In January 2008, the Company also established a rabbi trust for the benefit of the participants under the Plan. In accordance with authoritative guidance related to consolidation of variable interest entities and accounting for deferred compensation arrangements where amounts earned are held in a rabbi trust and invested, the Company has included the assets of the rabbi trust in its consolidated balance sheet since the trust's inception. As of January 2, 2011 and January 3, 2010, the assets of the trust were $6.1 million and $4.0 million, respectively, and liabilities of the Company were $5.3 million and $4.0 million, respectively. The assets and liabilities are classified as other assets and accrued liabilities, respectively, on the Company's consolidated balance sheets. Changes in the values of the assets held by the rabbi trust are recorded in other (expense) income, net in the consolidated statement of income.

13. Segment Information, Geographic Data, and Significant Customers

The Company is organized in two business segments, the Life Sciences Business Unit and Diagnostics Business Unit. The Life Sciences Business Unit includes all products and services that are primarily related to the research market, namely the product lines based on the Company's sequencing, BeadArray, VeraCode, and real-time PCR technologies. The Diagnostics Business Unit focuses on the emerging opportunity in molecular diagnostics. During all periods presented, the Company had limited activity related to the Diagnostics Business Unit. Accordingly, the Company's operating results for both units were reported on an aggregate basis as one reportable segment during these periods. The Company will begin reporting in two segments once revenues, operating profit or loss, or assets of the Diagnostics Business Unit exceed 10% of the consolidated amounts.

The Company had revenue in the following regions for the years ended January 2, 2011, January 3, 2010, and December 28, 2008 (in thousands):

	Years Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
United States	$ 498,981	$ 347,195	$ 280,064
United Kingdom	60,521	55,854	67,973
Other European countries	163,062	140,931	127,397
Asia-Pacific	143,441	96,396	72,740
Other markets	36,736	25,948	25,051
Total	$ 902,741	$ 666,324	$ 573,225

Net revenues are attributable to geographic areas based on the region of destination.

The majority of our product sales consist of consumables and instruments. For the years ended January 2, 2011, January 3, 2010, and December 28, 2008, consumable sales represented 56%, 59%, and 58%, respectively, of total revenues and instrument sales comprised 36%, 34%, and 32%, respectively, of total revenues. The Company's customers include leading genomic research centers, academic institutions, government laboratories, and clinical research organizations, as well as pharmaceutical, biotechnology,

agrigenomics, and consumer genomics companies. The Company had no customers that provided more than 10% of total revenue in the years ended January 2, 2011, January 3, 2010, and December 28, 2008.

Net long-lived assets exclude goodwill and other intangible assets since they are not allocated on a geographic basis. The Company had net long-lived assets consisting of property and equipment in the following regions as of January 2, 2011 and January 3, 2010 (in thousands):

	January 2, 2011	January 3, 2010
United States	$ 75,206	$ 75,095
United Kingdom	26,578	27,862
Other European countries	1,709	864
Singapore	14,739	12,599
Other Asia-Pacific countries	11,642	768
Total	$ 129,874	$ 117,188

14. Quarterly Financial Information (unaudited)

The following financial information reflects all normal recurring adjustments, except as noted below, which are, in the opinion of management, necessary for a fair statement of the results and cash flows of interim periods. All quarters for fiscal years 2010 and 2009 ended January 2, 2011 and January 3, 2010, respectively were 13 weeks except for the fourth quarter of fiscal year 2009, which was 14 weeks. Summarized quarterly data for fiscal years 2010 and 2009 are as follows (in thousands except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2010:				
Total revenue	$ 192,131	$ 212,003	$ 237,309	$ 261,298
Gross profit	132,178	146,091	157,145	166,126
Net income	21,208	29,796	35,447	38,440
Net income per share, basic	0.18	0.24	0.28	0.31
Net income per share, diluted	0.16	0.21	0.24	0.25
2009:				
Total revenue	$ 165,757	$ 161,643	$ 158,360	$ 180,564
Gross profit	110,065	111,158	107,126	125,526
Net income	18,811	24,688	17,077	11,705
Net income per share, basic	0.15	0.20	0.14	0.10
Net income per share, diluted	0.14	0.18	0.12	0.09

15. Subsequent Events

On January 10, 2011, the Company acquired Epicentre Biotechnologies, Inc., a provider of nucleic acid sample preparation reagents and specialty enzymes used in sequencing and microarray applications. Total consideration exchanged for the acquisition includes $60 million in cash, $15 million in stock that is subject to forfeiture if certain non-revenue based milestones are not met, and up to $15 million in contingent consideration payments based on the achievement of certain revenue-based milestones by January 10, 2013. Due to the limited time since the acquisition date, the Company has not completed the initial purchase accounting for this acquisition, including the assessment of fair values of consideration exchanged, assets acquired, and liabilities assumed.

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

During the period from January 3, 2011 to February 28, 2011, certain noteholders notified the Company of their election to convert an aggregate of $251.1 million principal amount of our convertible senior notes in exchange for the repayment of the principal amount and a certain number of shares of the Company's common stock representing the "in the money" amount of the notes. The number of shares of common stock to be delivered upon conversion is based on the Company's volume weighted average price over a twenty-day observation period that begins following the date of the election to convert. In connection with the conversions, the Company expects to exercise its right under the convertible note hedge with its hedging counterparties to repurchase the same amount of shares as exchanged in the conversions. The majority of the notified conversions have not been executed as the twenty-day observation period has not concluded as of February 28, 2011.

Upon conversion, the Company will record a gain or loss for the difference between the fair value of the notes to be extinguished and its corresponding carrying value, net of unamortized debt issuance costs. The fair value of the notes to be extinguished depends on the Company's current incremental borrowing rate. The net carrying value of the notes has an implicit interest rate of 8.27%. As the interest rate applicable at the time of conversion is likely to be lower than the implied interest rate of the notes, the Company will likely record a loss in its consolidated statement of income during the first quarter of 2011.

Exhibit 224

ILLUMINA INC (ILMN)

10-K
Annual report pursuant to section 13 and 15(d)
Filed on 02/24/2012
Filed Period 01/01/2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

☑ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 1, 2012

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission file number: 000-30361

Illumina, Inc.

(Exact name of registrant as specified in its charter)

Delaware	33-0804655
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
5200 Illumina Way San Diego, California	92122
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code: (858) 202-4500

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value (including associated Preferred Stock Purchase Rights)	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☑	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of January 31, 2012, there were 122,327,021shares (excluding 44,674,339 shares held in treasury) of the Registrant's Common Stock outstanding. The aggregate market value of the Common Stock held by non-affiliates of the Registrant as of July 3, 2011 (the last business day of the registrant's most recently completed second fiscal quarter), based on the closing price for the Common Stock on The NASDAQ Global Select Market on July 1, 2011 (the last trading day before July 3, 2011), was $9.3 billion. This amount excludes an aggregate of approximately 1.5 million shares of Common Stock held by officers and directors and each person known by the registrant to own 10% or more of the outstanding Common Stock. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, directly or indirectly, to direct or cause the direction of the management or policies of the registrant, or that the registrant is controlled by or under common control with such person.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2012 annual meeting of stockholders are incorporated by reference into Items 10 through 14 of Part III of this Report.

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended		
	January 1, 2012	January 2, 2011	January 3, 2010
	(In thousands, except per share amounts)		
Revenue:			
Product revenue	$ 987,280	$ 842,510	$ 627,240
Service and other revenue	68,255	60,231	39,084
Total revenue	1,055,535	902,741	666,324
Cost of revenue:			
Cost of product revenue	308,228	271,997	190,714
Cost of service and other revenue	26,118	21,399	15,055
Amortization of acquired intangible assets	12,091	7,805	6,680
Total cost of revenue	346,437	301,201	212,449
Gross profit	709,098	601,540	453,875
Operating expense:			
Research and development	196,913	177,947	140,616
Selling, general and administrative	261,843	220,454	176,337
Headquarter relocation expense	41,826	—	—
Restructuring charges	8,136	—	—
Acquisition related expense (gain), net	919	(8,515)	11,325
Total operating expense	509,637	389,886	328,278
Income from operations	199,461	211,654	125,597
Other income (expense):			
Interest income	7,052	8,378	11,029
Interest expense	(34,790)	(24,598)	(23,718)
Other (expense) income, net	(38,678)	(10,055)	1,217
Total other expense, net	(66,416)	(26,275)	(11,472)
Income before income taxes	133,045	185,379	114,125
Provision for income taxes	46,417	60,488	41,844
Net income	$ 86,628	$ 124,891	$ 72,281
Net income per basic share	$ 0.70	$ 1.01	$ 0.59
Net income per diluted share	$ 0.62	$ 0.87	$ 0.53
Shares used in calculating basic net income per share	123,399	123,581	123,154
Shares used in calculating diluted net income per share	138,937	143,433	137,096

See accompanying notes to consolidated financial statements

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unless the context requires otherwise, references in this report to "Illumina," "we," "us," the "Company," and "our" refer to Illumina, Inc. and its consolidated subsidiaries.

1. Organization and Summary of Significant Accounting Policies

Organization and Business

Illumina, Inc. (the Company) is a leading developer, manufacturer, and marketer of life science tools and integrated systems for the analysis of genetic variation and biological function. Using the Company's proprietary technologies, Illumina provides a comprehensive line of genetic analysis solutions, with products and services that serve a broad range of highly interconnected markets, including sequencing, genotyping, gene expression, and molecular diagnostics. The Company's customers include leading genomic research centers, academic institutions, government laboratories, and clinical research organizations, as well as pharmaceutical, biotechnology, agrigenomics, and consumer genomics companies.

Basis of Presentation

The consolidated financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles and include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Fiscal Year

The Company's fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, September 30, and December 31. The years ended January 1, 2012, January 2, 2011, and January 3, 2010 were 52, 52 and 53 weeks, respectively.

Use of Estimates

The preparation of financial statements requires that management make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Segment Information

The Company is organized in two operating segments for purposes of recording and reporting our financial results: Life Sciences and Diagnostics. The Life Sciences operating segment includes all products and services related to the research market, namely the product lines based on the Company's sequencing, BeadArray, VeraCode, and real-time polymerase chain reaction (PCR) technologies. The Diagnostics operating segment focuses on the emerging opportunity in molecular diagnostics. During all periods presented, the Diagnostics operating segment had limited activity. Accordingly, the Company's operating results for both segments are reported on an aggregate basis as one reportable segment. The Company will begin reporting in two reportable segments once revenues, operating profit or loss, or assets of the Diagnostics operating segment exceeds 10% of the consolidated amounts.

Acquisitions

The Company measures all assets acquired and liabilities assumed, including contingent considerations and all contractual contingencies, at fair value as of the acquisition date. In addition, the Company capitalizes in-process research and development (IPR&D) and either amortizes it over the life of the product upon commercialization, or writes it off if the project is abandoned or impaired. Post-acquisition adjustments related to business combination deferred tax asset valuation allowances and liabilities for uncertain tax positions are recorded in current period income tax expense. Contingent purchase considerations are remeasured to estimated fair value at each reporting period with the change in fair value recorded in acquisition related (gain) expense, net, a component of operating expenses.

Cash Equivalents and Short-Term Investments

Cash equivalents are comprised of short-term, highly liquid investments with maturities of 90 days or less at the date of

purchase.

Short-term investments consist of U.S. Treasury, U.S. government agency securities, and corporate debt securities. Management classifies short-term investments as available-for-sale at the time of purchase and reevaluates such classification as of each balance sheet date. All short-term investments are recorded at estimated fair value. Unrealized gains and losses for available-for-sale securities are included in accumulated other comprehensive income, a component of stockholders' equity. The Company evaluates its investments to assess whether those with unrealized loss positions are other than temporarily impaired. Impairments are considered to be other than temporary if they are related to deterioration in credit risk or if it is likely that the Company will sell the securities before the recovery of their cost basis. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in other (expense) income, net in the consolidated statements of income.

Fair Value Measurements

The Company determines the fair value of its assets and liabilities based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The Company uses a fair value hierarchy with three levels of inputs, of which the first two are considered observable and the last unobservable, to measure fair value:

- *Level 1* — Quoted prices in active markets for identical assets or liabilities.
- *Level 2* — Inputs, other than Level 1, that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- *Level 3* — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying amounts of financial instruments such as cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, and accrued liabilities, excluding acquisition related contingent consideration liabilities, approximate the related fair values due to the short-term maturities of these instruments.

Accounts Receivable

Trade accounts receivable are recorded at the net invoice value and are not interest bearing. The Company considers receivables past due based on the contractual payment terms. The Company reviews its exposure to accounts receivable and reserves specific amounts if collectibility is no longer reasonably assured. The Company also reserves a percentage of its trade receivable balance based on collection history and current economic trends that might impact the level of future credit losses. The Company re-evaluates such reserves on a regular basis and adjusts its reserves as needed.

Concentrations of Risk

The Company operates in markets that are highly competitive and rapidly changing. Significant technological changes, shifting customer needs, the emergence of competitive products or services with new capabilities, and other factors could negatively impact the Company's operating results. A significant portion of the Company's customers consist of university and research institutions that management believes are, to some degree, directly or indirectly supported by the United States Government. A significant change in current research funding, particularly with respect to the National Institutes of Health, could have a material adverse impact on the Company's future revenues and results of operations.

The Company is also subject to risks related to its financial instruments including its cash and cash equivalents, investments, and accounts receivable. Most of the Company's cash and cash equivalents as of January 1, 2012 were deposited with financial institutions in the United States. The Company's investment policy restricts the amount of credit exposure to any one issuer to 5% of the portfolio at the time of purchase and to any one industry sector, as defined by Bloomberg classifications, to 25% of the portfolio at the time of purchase. There is no limit to the percentage of the portfolio that may be maintained in U.S. treasury obligations, U.S. government agency securities, and money market funds.

The Company's products require customized components that currently are available from a limited number of sources. The Company obtains certain key components included in its products from single vendors.

The Company performs a regular review of customer activity and associated credit risks and do not require collateral or enter into netting arrangements. Shipments to customers outside the United States comprised 50%, 45%, and 48% of the Company's revenue for the years ended January 1, 2012, January 2, 2011, and January 3, 2010, respectively. Customers outside the United States represented 52% and 59% of the Company's gross trade accounts receivable balance as of January 1, 2012 and January 2, 2011, respectively. Sales to territories outside of the United States may be denominated in U.S. dollars or in the local currency.

International sales entail a variety of risks, including currency exchange fluctuations, longer payment cycles, and greater difficulty in accounts receivable collection. The Company is also subject to general geopolitical risks, such as political, social and economic instability, and changes in diplomatic and trade relations. The risks of international sales are mitigated in part by the extent to which sales are geographically distributed. The Company has historically not experienced significant credit losses from investments and accounts receivable. Approximately 20% of the Company's revenue is derived from European countries other than the United Kingdom. As the credit and economic conditions in certain southern European countries continue to deteriorate, the Company regularly reviews its accounts receivable outstanding in these countries and assesses the allowance for doubtful accounts accordingly. As of January 1, 2012, non-current accounts receivables from these countries accounted for approximately 3% of the Company's accounts receivable balance, and the Company has not experienced significant difficulties in collecting on the accounts receivable outstanding in these countries.

Inventory

Inventory is stated at the lower of cost (on a first in, first out basis) or market. Inventory includes raw materials and finished goods that may be used in the research and development process and such items are expensed as consumed or expired. Provisions for slow moving, excess, and obsolete inventories are estimated based on product life cycles, quality issues, historical experience, and usage forecasts.

Property and Equipment

Property and equipment are stated at cost, subject to review of impairment, and depreciated over the estimated useful lives of the assets (generally three to seven years) using the straight-line method. Amortization of leasehold improvements is computed over the shorter of the lease term or the estimated useful life of the related assets. Maintenance and repairs are charged to operations as incurred. When assets are sold, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in operating expense.

Goodwill, Intangible Assets and Other Long-Lived Assets

Goodwill represents the excess of cost over fair value of net assets acquired. The change in the carrying value of goodwill during the year ended January 1, 2012 was due to goodwill recorded in connection with the Company's acquisition of Epicentre Technologies Corporation (Epicentre) in January 2011.

The Company's identifiable intangible assets are comprised primarily of IPR&D, licensed technology, acquired core technologies, customer relationships, trade names, and license agreements. Except IPR&D, the cost of all identifiable intangible assets is amortized on a straight-line basis over their respective useful lives. The Company regularly performs reviews to determine if the carrying values of its long-lived assets are impaired. A review of intangible assets that have finite useful lives and other long-lived assets is performed when an event occurs indicating the potential for impairment. If indicators of impairment exist, the Company assesses the recoverability of the affected long-lived assets by determining whether the carrying amount of such assets exceeds the undiscounted expected future cash flows associated with such assets. If impairment is indicated, the Company compares the carrying amount to the estimated fair value of the affected assets and adjusts the value of such assets accordingly. Factors that would indicate potential impairment include a significant decline in the Company's stock price and market capitalization compared to its net book value, significant changes in the ability of a particular asset to generate positive cash flows, and significant changes in the Company's strategic business objectives and utilization of a particular asset. The Company performed quarterly reviews of its long-lived assets and noted no indications of impairment for the year ended January 1, 2012.

Goodwill and IPR&D, which have indefinite useful lives, are reviewed for impairment at least annually during the second fiscal quarter, or more frequently if an event occurs indicating the potential for impairment. The performance of the goodwill impairment test is a two-step process. The first step of the impairment test involves comparing the estimated fair value of the

reporting unit with its carrying value, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the Company performs the second step of the goodwill impairment test to determine the amount of loss, which involves comparing the implied fair value of the goodwill with the carrying value of the goodwill. The Company performed its annual impairment test of goodwill in the second fiscal quarter of 2011, noting no impairment. In its impairment test, the Company concluded that it has a single reporting unit and that its fair value exceeded its book value, using market capitalization as a reference for the Company's fair value. Therefore, the first step recoverability test was passed and the second step analysis was not required.

The IPR&D impairment test requires the Company to assess the fair value of the asset as compared to its carrying value, and if the carrying value exceeds the fair value, record an impairment charge. The Company performed its annual impairment test of its IPR&D in the second fiscal quarter of 2011, noting no impairment. In addition, in connection of our restructuring plan executed in the fourth quarter of 2011, the Company identified certain impairment indicators related to its IPR&D asset, and performed another impairment test as of January 1, 2012, noting no impairment. In its impairment test, the Company assessed the fair value of IPR&D using an income approach, taking into consideration various factors such as future revenue contributions, additional research and development costs to be incurred, and contributory asset charges. The rate used to discount net future cash flows to their present values was based on a risk-adjusted rate of return.

Reserve for Product Warranties

The Company generally provides a one-year warranty on instruments. Additionally, the Company provides a warranty on its consumables through the expiration date, which generally ranges from six to twelve months after the manufacture date. The Company establishes an accrual for estimated warranty expenses based on historical experience as well as anticipated product performance. The Company periodically reviews the adequacy of its warranty reserve, and adjusts, if necessary, the warranty percentage and accrual based on actual experience and estimated costs to be incurred. Warranty expense is recorded as a component of cost of product revenue. Warranty expenses associated with extended maintenance contracts for systems are recorded as cost of service and other revenue as incurred.

Revenue Recognition

The Company's revenue is generated primarily from the sale of products and services. Product revenue primarily consists of sales of instrumentation and consumables used in genetic analysis. Service and other revenue primarily consists of revenue received for performing genotyping and sequencing services, instrument service contract sales, and amounts earned under research agreements with government grants, which are recognized in the period during which the related costs are incurred.

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable, and collectibility is reasonably assured. In instances where final acceptance of the product or system is required, revenue is deferred until all the acceptance criteria have been met. All revenue is recorded net of any discounts.

Revenue for product sales is recognized generally upon transfer of title to the customer, provided that no significant obligations remain and collection of the receivable is reasonably assured. Revenue for genotyping and sequencing services is recognized when earned, which is generally at the time the genotyping or sequencing analysis data is made available to the customer or agreed upon milestones are reached.

In order to assess whether the price is fixed or determinable, the Company evaluates whether refund rights exist. If there are refund rights or payment terms based on future performance, the Company defers revenue recognition until the price becomes fixed or determinable. The Company assesses collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If the Company determines that collection of a payment is not reasonably assured, revenue recognition is deferred until receipt of payment.

The Company regularly enters into contracts where revenue is derived from multiple deliverables including any mix of products or services. These products or services are generally delivered within a short time frame, approximately three to six months, of the contract execution date. Revenue recognition for contracts with multiple deliverables is based on the individual units of accounting determined to exist in the contract. A delivered item is considered a separate unit of accounting when the delivered item has value to the customer on a stand-alone basis. Items are considered to have stand-alone value when they are sold separately by any vendor or when the customer could resell the item on a stand-alone basis. Consideration is allocated at the inception of the contract to all deliverables based on their relative selling price. The relative selling price for each deliverable is determined using vendor specific objective evidence (VSOE) of selling price or third-party evidence of selling price if VSOE does not exist. If neither VSOE nor third-party evidence exists, the Company uses its best estimate of the selling

price for the deliverable.

In order to establish VSOE of selling price, the Company must regularly sell the product or service on a standalone basis with a substantial majority priced within a relatively narrow range. VSOE of selling price is usually the midpoint of that range. If there are not a sufficient number of standalone sales and VSOE of selling price cannot be determined, then the Company considers whether third party evidence can be used to establish selling price. Due to the lack of similar products and services sold by other companies within the industry, the Company has rarely established selling price using third-party evidence. If neither VSOE nor third party evidence of selling price exists, the Company determines its best estimate of selling price using average selling prices over a rolling 12-month period coupled with an assessment of current market conditions. If the product or service has no history of sales or if the sales volume is not sufficient, the Company relies upon prices set by the Company's pricing committee adjusted for applicable discounts. The Company recognizes revenue for delivered elements only when it determines there are no uncertainties regarding customer acceptance.

In the first quarter of 2010 , the Company offered an incentive with the launch of the HiSeq 2000 that enabled existing Genome Analyzer customers to trade in their Genome Analyzer and receive a discount on the purchase of a HiSeq 2000. The incentive was limited to customers who had purchased a Genome Analyzer as of the date of the announcement and was the first significant trade-in program offered by the Company. The Genome Analyzer trade-in program was completed in 2011. The Company accounted for HiSeq 2000 discounts related to the Genome Analyzer trade-in program as reductions to revenue upon recognition of the HiSeq 2000 sales revenue, which is later than the date the trade-in program was launched.

In certain markets within Europe, the Asia-Pacific region, Latin America, the Middle East, and South Africa the Company sells products and provides services to customers through distributors that specialize in life science products. In most sales through distributors, the product is delivered directly to customers. In cases where the product is delivered to a distributor, revenue recognition is deferred until acceptance is received from the distributor, and/or the end-user, if required by the applicable sales contract. The terms of sales transactions through distributors are consistent with the terms of direct sales to customers. These transactions are accounted for in accordance with the Company's revenue recognition policy described herein.

Shipping and Handling Expenses

Shipping and handling expenses are included in cost of product revenue.

Research and Development

Research and development expenses consist of costs incurred for internal and grant-sponsored research and development. Research and development expenses include personnel expenses, contractor fees, facilities costs, and utilities. Expenditures relating to research and development are expensed in the period incurred.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were $6.8 million, $6.9 million, and $4.2 million for the years ended January 1, 2012, January 2, 2011, and January 3, 2010, respectively.

Leases

Leases are reviewed and classified as capital or operating at their inception. For leases that contain rent escalations, the Company records rent expense on a straight-line basis over the term of the lease, which includes the construction build-out period and lease extension periods, if appropriate. The difference between rent payments and straight-line rent expense is recorded as deferred rent in accrued liabilities and other long-term liabilities. Landlord allowances are amortized on a straight-line basis over the lease term as a reduction to rent expense. The Company capitalizes leasehold improvements and amortizes them over the shorter of the lease term or their expected useful lives.

During the year ended January 1, 2012, the Company substantially moved its headquarters to another facility in San Diego, California, and recorded headquarter relocation expense of $41.8 million, which primarily consisted of accelerated depreciation expense, impairment of assets, additional rent expense during the transition period when both the new and former headquarter facilities are occupied, moving expenses, and a cease-use loss. The Company recorded accelerated depreciation expense for leasehold improvements at its former headquarter facility based on the reassessed useful lives of less than a year. The Company recorded the cease-use loss and a corresponding facility exit obligation upon vacating certain buildings of its

former headquarters, calculated as the present value of the remaining lease obligation offset by estimated sublease rental receipts during the remaining lease period, adjusted for deferred items and estimated lease incentives. The key assumptions used in the calculation include the amount and timing of estimated sublease rental receipts, and the risk-adjusted discount rate. Over the course of the remaining lease term of the former facility, the Company will record additional headquarter relocation expenses due to additional cease-use loss to be recorded upon exit of additional buildings, the accretion on the facility exit obligation and adjustments that may arise from change in estimates for the sublease rental receipts.

Restructuring Charges

During the fourth quarter of the year ended January 1, 2012, the Company announced and executed a restructuring plan, to reduce the Company's workforce and to consolidate certain facilities. The Company measured and accrued the liabilities associated with employee separation costs at fair value as of the date the plan was announced and terminations are communicated to employees, which primarily included severance pay and other separation costs such as outplacement services and benefits. The Company will measure and accrue the facilities exit costs at fair value upon its exit. Facilities exit costs will primarily consist of cease-use losses to be recorded upon vacating the facilities, asset impairment, and accelerated depreciation expenses.

The fair value measurement of restructuring related liabilities requires certain assumptions and estimates to be made by the Company, such as the retention period of certain employees, the timing and amount of sublease income on properties to be vacated, and the operating costs to be paid until lease termination. It is the Company's policy to use the best estimates based on facts and circumstances available at the time of measurement, review the assumptions and estimates periodically, and adjust the liabilities when necessary.

Income Taxes

The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and credit carryforwards. Deferred tax assets and liabilities are determined using the enacted tax rates in effect for the years in which those tax assets are expected to be realized. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the provision for income taxes in the period that includes the enactment date.

Deferred tax assets are regularly assessed to determine the likelihood they will be recovered from future taxable income. A valuation allowance is established when the Company believes it is more likely than not the future realization of all or some of a deferred tax asset will not be achieved. In evaluating the ability to recover deferred tax assets within the jurisdiction which they arise the Company considers all available positive and negative evidence. Factors reviewed include the cumulative pre-tax book income for the past three years, scheduled reversals of deferred tax liabilities, history of earnings and reliable forecasting, projections of pre-tax book income over the foreseeable future, and the impact of any feasible and prudent tax planning strategies.

The Company recognizes excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company.

The Company recognizes the impact of a tax position in the financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense.

Functional Currency

The U.S. dollar has been determined to be the functional currency of the Company's international operations. The Company remeasures its foreign subsidiaries' assets and liabilities and revenue and expense accounts related to monetary assets and liabilities to the U.S. dollar and records the net gains or losses resulting from remeasurement in other (expense) income, net in the consolidated statements of income. The remeasurement resulted in an immaterial loss in the year ended January 1, 2012, an immaterial gain in the year ended January 2, 2011, and a loss of $2.3 million for the year ended January 3, 2010,

respectively.

Derivatives

The Company is exposed to foreign exchange rate risks in the normal course of business. To manage a portion of the accounting exposure resulting from changes in foreign currency exchange rates, the Company enters into foreign exchange contracts to hedge monetary assets and liabilities that are denominated in currencies other than the U.S. dollar. These foreign exchange contracts are carried at fair value and are not designated as hedging instruments. Changes in the value of the derivative are recognized in other (expense) income, net, in the consolidated statements of income for the current period, along with an offsetting remeasurement gain or loss on the underlying foreign currency denominated assets or liabilities.

As of January 1, 2012, the Company had foreign exchange forward contracts in place to hedge exposures in the euro, Japanese yen, and Australian dollar. As of January 1, 2012 and January 2, 2011, the total notional amount of outstanding forward contracts in place for foreign currency purchases was $25.5 million and $20.0 million, respectively. Gains and losses related to the non-designated foreign exchange forward contracts for the years ended January 1, 2012, January 2, 2011, and January 3, 2010 were immaterial.

Share-Based Compensation

The Company uses the Black-Scholes-Merton option-pricing model to estimate the fair value of stock options granted and stock purchases under the Employee Stock Purchase Plan (ESPP). This model incorporates various assumptions including expected volatility, expected term of an award, expected dividends, and the risk-free interest rates. The Company determines the expected volatility by equally weighing the historical and implied volatility of the Company's common stock. The historical volatility of the Company's common stock over the most recent period is generally commensurate with the estimated expected term of the Company's stock awards, adjusted for the impact of unusual fluctuations not reasonably expected to recur and other relevant factors. The implied volatility is calculated from the implied market volatility of exchange-traded call options on the Company's common stock. The expected term of an award is based on historical forfeiture experience, exercise activity, and on the terms and conditions of the stock awards. The fair value of restricted stock units granted is based on the market price of our common stock on the date of grant. The Company recognizes the fair value of share-based compensation on a straight-line basis over the requisite service periods of the awards.

Net Income per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the reporting period increased to include dilutive potential common shares calculated using the treasury stock method. Diluted net income per share reflects the potential dilution from outstanding stock options, restricted stock units, ESPP, warrants, shares subject to forfeiture, and convertible senior notes. Under the treasury stock method, convertible senior notes will have a dilutive impact when the average market price of the Company's common stock is above the applicable conversion price of the respective notes. In addition, the following amounts are assumed to be used to repurchase shares: the amount that must be paid to exercise stock options and warrants and purchase shares under the ESPP; the amount of compensation expense for future services that the Company has not yet recognized for stock options, restricted stock units, ESPP, and shares subject to forfeiture; and the amount of tax benefits that will be recorded in additional paid-in capital when the expenses related to respective awards become deductible.

The following table presents the calculation of weighted average shares used to calculate basic and diluted net income per share (in thousands):

	Years Ended		
	January 1, 2012	January 2, 2011	January 3, 2010
Weighted average shares outstanding	123,399	123,581	123,154
Effect of dilutive Convertible Senior Notes	3,783	9,058	6,497
Effect of dilutive equity awards	4,703	4,674	4,335
Effect of dilutive warrants sold in connection with the Convertible Senior Notes	7,052	5,317	1,566
Effect of dilutive warrants assumed in a prior acquisition	—	803	1,544
Weighted-average shares used in calculating diluted net income per share	138,937	143,433	137,096
Weighted average shares excluded from calculation due to anti-dilutive effect	2,418	1,934	924

Accumulated Other Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income. The Company has disclosed comprehensive income as a component of stockholders' equity. Accumulated other comprehensive income on the consolidated balance sheets at January 1, 2012 and January 2, 2011 includes accumulated foreign currency translation adjustments and unrealized gains and losses on the Company's available-for-sale securities.

The components of accumulated other comprehensive income are as follows (in thousands):

	January 1, 2012	January 2, 2011
Foreign currency translation adjustments	$ 1,289	$ 1,338
Unrealized gain on available-for-sale securities, net of deferred tax	828	427
Total accumulated other comprehensive income	$ 2,117	$ 1,765

2. Balance Sheet Account Details

Investments

The following is a summary of short-term investments (in thousands):

	January 1, 2012				January 2, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:								
Debt securities in government sponsored entities	$ 393,759	$ 428	$ (148)	$ 394,039	$ 261,890	$ 106	$ (299)	$ 261,697
Corporate debt securities	432,550	1,293	(461)	433,382	329,823	1,170	(235)	330,758
U.S. treasury securities	58,955	214	—	59,169	52,938	70	(121)	52,887
Total available-for-sale securities	$ 885,264	$ 1,935	$ (609)	$ 886,590	$ 644,651	$ 1,346	$ (655)	$ 645,342

Available-For-Sale Securities

As of January 1, 2012 the Company had 107 available for sale securities in a gross unrealized loss position, all of which had been in such position for less than twelve months. There were no impairments considered other-than-temporary as it is more likely than not the Company will hold the securities until maturity or a recovery of the cost basis. The following table shows the fair values and the gross unrealized losses of the Company's available-for- sale securities that were in an unrealized loss position as of January 1, 2012 and January 2, 2011 aggregated by investment category (in thousands):

	January 1, 2012		January 2, 2011	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Debt securities in government sponsored entities	$ 133,904	$ (148)	$ 127,756	$ (299)
Corporate debt securities	138,326	(461)	92,199	(235)
U.S. treasury securities	—	—	13,490	(121)
Total	$ 272,230	$ (609)	$ 233,445	$ (655)

Realized gains and losses are determined based on the specific identification method and are reported in interest income in the consolidated statements of income. For the year ended January 1, 2012, gross realized gains on sales of available-for sale securities were $1.4 million and gross realized losses were immaterial. Gross realized gains and losses on sales of available-for-sale securities were immaterial for each of the years ended January 1, 2012 and January 3, 2010.

Contractual maturities of available-for-sale debt securities as of January 1, 2012 were as follows (in thousands):

	Estimated Fair Value
Due within one year	$ 268,355
After one but within five years	618,235
Total	$ 886,590

Cost-Method Investments

As of January 1, 2012 and January 2, 2011, the aggregate carrying amounts of the Company's cost-method investments in non-publicly traded companies were $45.3 million and $32.0 million, respectively. The Company's cost-method investments are assessed for impairment quarterly. The Company does not estimate the fair value of cost-method investments if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investments. The Company includes cost-method investments in other long term assets in the consolidated balance sheets.

In 2010, the Company determined that a $6.0 million cost-method investment and a related $6.8 million note receivable with interest receivable of $0.4 million were below carrying value and the impairment was other-than-temporary. This determination was based upon continued shortfalls from revenue plans coupled with events at the time of assessment that created uncertainty regarding the entity's ability to obtain additional funding in a required timeframe for the entity to continue operations. As a result, the Company recorded an impairment charge of $13.2 million in other (expense) income, net in the consolidated statements of income for the year ended January 2, 2011.

Accounts Receivable

Accounts receivable consist of the following (in thousands):

	January 1, 2012	January 2, 2011
Accounts receivable from product and service sales	$ 175,226	$ 165,117
Other receivables	2,657	2,167
Total accounts receivable, gross	177,883	167,284
Allowance for doubtful accounts	(3,997)	(1,686)
Total accounts receivable, net	$ 173,886	$ 165,598

Inventory

Inventory, net, consists of the following (in thousands):

	January 1, 2012	January 2, 2011
Raw materials	$ 58,340	$ 54,762
Work in process	53,412	64,862
Finished goods	17,029	22,587
Total inventory, net	$ 128,781	$ 142,211

Property and Equipment

Property and equipment, net consists of the following (in thousands):

	January 1, 2012	January 2, 2011
Leasehold improvements	$ 63,406	$ 55,681
Manufacturing and laboratory equipment	137,805	114,108
Computer equipment and software	54,826	41,500
Furniture and fixtures	9,274	6,732
Leased equipment	14,854	15,475
Total property and equipment, gross	280,165	233,496
Accumulated depreciation	(136,682)	(103,622)
Total property and equipment, net	$ 143,483	$ 129,874

Depreciation expense was $55.6 million, $34.2 million and $24.5 million for the years ended January 1, 2012, January 2, 2011, and January 3, 2010, respectively. Capital expenditures included accrued expenditures of $5.9 million, $1.8 million, and $2.3 million in the years ended January 1, 2012, January 2, 2011, and January 3, 2010, respectively. These amounts have been excluded from the Consolidated Statements of Cash Flows for the respective periods as they represent non-cash investing activities.

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	January 1, 2012	January 2, 2011
Deferred revenue, current portion	$ 52,573	$ 45,863
Accrued compensation expenses	52,035	49,368
Accrued taxes payable	19,339	13,277
Customer deposits	17,958	14,900
Reserve for product warranties	11,966	16,761
Deferred rent, current portion	11,042	—
Accrued royalties	5,682	2,781
Facility exit obligation, current portion	4,408	—
Acquisition related contingent consideration liability	2,335	3,738
Other accrued expenses	10,436	9,476
Total accrued liabilities	$ 187,774	$ 156,164

3. Restructuring Activities

During the fourth quarter of 2011 the Company implemented a cost reduction initiative that included workforce reductions and the consolidation of certain facilities. In total, the Company notified approximately 200 employees of their

involuntary termination.

In 2011, the Company recorded a pre-tax restructuring charge of $8.1 million , primarily related to severance pay and other employee separation costs. A summary of the pre-tax charge and estimated total costs associated with the initiative is as follows (in thousands):

	Employee Separation costs	Facilities Exit Costs	Other Costs	Total
Expense recorded in the year ended January 1, 2012	$ 7,683	$ —	$ 453	$ 8,136
Cash paid during the year ended January 1, 2012	4,187	—	423	4,610
Amount recorded in accrued liabilities as of January 1, 2012	$ 3,496	$ —	$ 30	$ 3,526
Estimated total restructuring costs to be incurred	$ 10,932	$ 1,600	$ 1,303	$ 13,835

It is expected that the accrued employee related restructuring charges will be substantially paid and the restructuring project substantially completed by the end of second quarter of 2012.

4. Acquisitions

Epicentre

On January 10, 2011, the Company acquired Epicentre, a provider of nucleic acid sample preparation reagents and specialty enzymes used in sequencing and microarray applications. Total consideration for the acquisition was $71.4 million, which included $59.4 million in net cash payments made at closing, $4.6 million in the fair value of contingent consideration settled in stock that is subject to forfeiture if certain non-revenue based milestones are not met, and $7.4 million in the fair value of contingent cash consideration of up to $15 million based on the achievement of certain revenue based milestones by January 10, 2013.

The Company estimated the fair value of contingent stock consideration based on the closing price of its common stock as of the acquisition date. Approximately 229,000 shares of common stock were issued to Epicentre shareholders in connection with the acquisition, which are subject to forfeiture if certain non-revenue-based milestones are not met. One third of these shares issued with an assessed fair value of $4.6 million were determined to be part of the purchase price. The remaining shares with an assessed fair value of $10.1 million were determined to be compensation for post-acquisition service, the cost of which will be recognized as contingent compensation expense over a period of 2 years in research and development expense or selling, general and administrative expense.

The Company estimated the fair value of contingent cash consideration using a probability weighted discounted cash flow approach, a Level 3 measurement based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value. The Company used a discount rate of 21% in the assessment of the acquisition date fair value for the contingent cash consideration. Future changes in significant inputs such as the discount rate and estimated probabilities of milestone achievements could have a significant effect on the fair value of the contingent consideration.

The Company allocated $0.9 million of the total consideration to tangible assets, net of liabilities, and $26.9 million to identified intangible assets, including additional developed technologies of $23.3 million , customer relationships of $1.1 million , and a trade name of $2.5 million , with weighted average useful lives of approximately nine , three , and ten years, respectively. The Company recorded the excess consideration of $43.6 million as goodwill.

Prior Acquisitions

On April 30, 2010, the Company completed the acquisition of Helixis, a company developing a high-performance, low-cost, real time PCR system used for nucleic acid analysis. Total consideration for the acquisition at the closing date was approximately $86.7 million, including $70.0 million in net cash payments and $14.1 million for the fair value of contingent consideration payments that could range from $0 to $35 million based on the achievement of certain revenue-based milestones by December 31, 2011. Using information available at the close of the acquisition, the Company allocated approximately $2.3 million of the

consideration to tangible assets, net of liabilities, and approximately $28.0 million to identified intangible assets that will be amortized over a useful life of 10 years. The Company also recorded a $10.7 million deferred tax liability to reflect the tax impact of the identified intangible assets that will not generate tax deductible amortization expense and an $8.7 million deferred tax asset which primarily relates to acquired net operating loss carryforwards. The Company recorded the excess consideration of approximately $58.4 million as goodwill.

Prior to the acquisition, the Company had an equity interest in Helixis with a cost basis of $2.0 million that was accounted for under the cost method of accounting. The Company recognized a gain of $2.9 million , which was included in other (expense) income, net, in its consolidated statement of income as a result of revaluing the Company's equity interest in Helixis on the acquisition date.

On July 28, 2010, the Company completed an acquisition of another privately-held, development stage entity. Total consideration for the acquisition was $22.0 million. As a result of this transaction, the Company recorded an in-process research and development (IPR&D) asset of $21.4 million in intangible assets. In determining the fair value of the IPR&D, various factors were considered, such as future revenue contributions, additional research and development costs to be incurred, and contributory asset charges. The fair value of the IPR&D was calculated using an income approach, and the rate used to discount net future cash flows to their present values was based on a risk-adjusted rate of return of approximately 28%. Significant factors considered in the calculation of the rate of return include the weighted average cost of capital, the weighted average return on assets, the internal rate of return, as well as the risks inherent in the development process for development-stage entities of similar sizes.

In addition, the Company completed the acquisition of a development-stage company in 2008, and agreed to pay the former shareholders of the entity up to an additional $35.0 million in contingent cash consideration based on the achievement of certain product-related and employment-related milestones. In accordance with the applicable accounting guidance effective at that time, when the contingency is resolved beyond a reasonable doubt and the additional consideration is issued or becomes issuable, the additional considerations are accounted for as an additional element of the cost of acquisition, resulting in additional IPR&D charges in the periods presented. All employment-related contingent compensation expense is recorded in operating expense.

As of January 1, 2012, the Company's remaining gross milestone obligations related to these prior year acquisitions consisted of potential employment-related milestone payments of $1.4 million. Contingent compensation expenses and IPR&D charges as a result of acquisitions consist of the following (in thousands):

	Years Ended		
	January 1, 2012	January 2, 2011	January 3, 2010
Contingent compensation expense, included in research and development expense	$ 4,799	$ 3,675	$ 3,675
Contingent compensation expense, included in selling, general and administrative expense	1,258	—	—
Total contingent compensation expense	$ 6,057	$ 3,675	$ 3,675
IPR&D, included in acquisition related (gain) expense, net	$ 5,425	$ 1,325	$ 11,325

5. Intangible Assets

The Company's intangible assets, excluding goodwill, are comprised primarily of acquired core technology, licensed technology from a settlement, IPR&D, license agreements, trade name, and customer relationships. Amortization for the intangible assets that have finite useful lives is recorded on a straight-line basis over their useful lives.

The following is a summary of the Company's identifiable intangible assets as of the respective balance sheet dates (in thousands):

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	January 1, 2012				January 2, 2011			
	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net
Finite-lived Intangible assets:								
Licensed technology	8.0	$ 36,000	$ (20,000)	$ 16,000	8.0	$ 36,000	$ (15,849)	$ 20,151
Core technology	9.7	74,800	(18,544)	56,256	10.0	51,500	(10,604)	40,896
Customer relationships	3.0	1,980	(1,253)	727	3.0	900	(900)	—
License agreements	8.9	12,404	(2,605)	9,799	8.9	10,654	(1,677)	8,977
Trade name	10.0	2,500	(245)	2,255	—	—	—	—
Infinite-lived Intangible Asset:								
In-process research & development	—	21,438	—	21,438	—	21,438	—	21,438
Total intangible assets, net		$ 149,122	$ (42,647)	$ 106,475		$ 120,492	$ (29,030)	$ 91,462

Additions to intangible assets in the current year are a result of the Epicentre acquisition. Amortization expense associated with intangible assets was $13.6 million for the year ended January 1, 2012 , $12.7 million of which related to acquired intangible assets. Amortization expense associated with intangible assets was $7.8 million and $6.7 million for the years ended January 2, 2011 and January 3, 2010 respectively.

The estimated annual amortization of intangible assets for the next five years is shown in the following table (in thousands). Actual amortization expense to be reported in future periods could differ from these estimates as a result of acquisitions, divestitures, asset impairments, and other factors.

2012	$ 14,247
2013	14,332
2014	13,548
2015	13,102
2016	8,426
Thereafter	21,382
Total	$ 85,037

6. Fair Value Measurements

The following table presents the Company's fair value hierarchy for assets and liability measured at fair value on a recurring basis as of January 1, 2012 and January 2, 2011 (in thousands):

	January 1, 2012				January 2, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Money market funds (cash equivalent)	$ 166,898	$ —	$ —	$ 166,898	$ 148,822	$ —	$ —	$ 148,822
Debt securities in government sponsored entities	—	394,039	—	394,039	—	261,697	—	261,697
Corporate debt securities	—	433,382	—	433,382	—	330,758	—	330,758
U.S. Treasury securities	59,169	—	—	59,169	52,887	—	—	52,887
Deferred compensation plan assets	—	10,800	—	10,800	—	6,449	—	6,449
Total assets measured at fair value	$ 226,067	$ 838,221	$ —	$ 1,064,288	$ 201,709	$ 598,904	$ —	$ 800,613
Liabilities:								
Acquisition related contingent consideration liability	$ —	$ —	$ 6,638	$ 6,638	$ —	$ —	$ 3,738	$ 3,738
Deferred compensation liability	—	8,970	—	8,970	—	5,272	—	5,272
Total liabilities measured at fair value	$ —	$ 8,970	$ 6,638	$ 15,608	$ —	$ 5,272	$ 3,738	$ 9,010

The Company holds available-for-sale securities that consist of highly liquid, investment grade debt securities. The Company determines the fair value of its debt security holdings based on pricing from a service provider. The service provider values the securities based on "consensus pricing," using market prices from a variety of industry-standard independent data providers. Such market prices may be quoted prices in active markets for identical assets (Level 1 inputs) or pricing determined using inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs), such as, yield curve, volatility factors, credit spreads, default rates, loss severity, current market and contractual prices for the underlying instruments or debt, broker and dealer quotes, as well as other relevant economic measures. The Company performs certain procedures to corroborate the fair value of its holdings, including comparing prices obtained from the service provider to prices obtained from other reliable sources.

The Company's deferred compensation plan assets consist primarily of mutual funds. See footnote "14. Employee Benefit Plans" for additional information about our deferred compensation plan.

At January 1, 2012, the Company reassessed the fair value of the contingent consideration settled in cash related to acquisitions using the income approach. These fair value measurements are Level 3 measurements. Significant assumptions used in the measurement include probabilities of achieving the remaining milestones and the discount rates, which depends on the milestone risk profiles. Due to changes in the estimated probabilities to achieve the relevant milestones and a shorter discounting period, the fair value of the contingent consideration liabilities changed, resulting in a gain of $4.5 million recorded in acquisition related (gain) expense, net, in the consolidated statements of income during the year ended January 1, 2012, respectively.

Changes in estimated fair value of contingent consideration liabilities from January 3, 2010 through January 1, 2012 are as follows (in thousands):

	Contingent Consideration Liability (Level 3 Measurement)
Balance as of January 3, 2010	$ —
Acquisition of Helixis	14,114
Gain recorded in acquisition related (gain) expense, net	(10,376)
Balance as of January 2, 2011	$ 3,738
Acquisition of Epicentre	7,400
Gain recorded in acquisition related (gain) expense, net	(4,500)
Balance as of January 1, 2012	$ 6,638

7. Warranties

The Company generally provides a one-year warranty on instruments. Additionally, the Company provides a warranty on its consumables through the expiration date, which generally ranges from six to twelve months after the manufacture date. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses based on historical experience as well as anticipated product performance. The Company periodically reviews the adequacy of our warranty reserve, and adjusts, if necessary, the warranty percentage and accrual based on actual experience and estimated costs to be incurred. Warranty expense is recorded as a component of cost of product revenue. Estimated warranty expenses associated with extended maintenance contracts for systems are recorded as a cost of service and other revenue as incurred.

Changes in the Company's reserve for product warranties from December 28, 2008 through January 1, 2012 are as follows (in thousands):

Balance as of December 28, 2008	$ 8,203
Additions charged to cost of revenue	14,613
Repairs and replacements	(12,601)
Balance as of January 3, 2010	10,215
Additions charged to cost of revenue	25,146
Repairs and replacements	(18,600)
Balance as of January 2, 2011	16,761
Additions charged to cost of revenue	17,913
Repairs and replacements	(22,708)
Balance as of January 1, 2012	$ 11,966

8. Convertible Senior Notes

0.25% Convertible Senior Notes due 2016

In March 2011, the Company issued $800 million aggregate principal amount of 0.25% convertible senior notes due 2016 (the 2016 Notes) in an offering conducted in accordance with Rule 144A under the Securities Act of 1933, as amended. The 2016 Notes were issued at 98.25% of par value. Debt issuance costs of approximately $0.4 million primarily comprised legal, accounting, and other professional fees, the majority of which were recorded in other noncurrent assets and are being amortized to interest expense over the five-year term of the 2016 Notes. The Company issued an additional $120 million aggregate principal amount of 2016 Notes in April 2011. The net proceeds from the initial issuance and subsequent issuance, after deducting the initial purchasers' discount and the estimated offering expenses payable by the Company, were $785.6 million and $117.9 million, respectively.

The 2016 Notes will be convertible into cash, shares of common stock, or a combination of cash and shares of common stock, at the Company's election, based on an initial conversion rate, subject to adjustment, of 11.9687 shares per $1,000 principal amount of the 2016 Notes (which represents an initial conversion price of approximately $83.55+ per share), only in the following circumstances and to the following extent: (1) during the five business-day period after any 10 consecutive trading day period (the "measurement period") in which the trading price per 2016 Note for each day of such measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such day; (2) during any calendar quarter (and only during that quarter) after the calendar quarter ending March 31, 2011, if the last reported sale price of the Company's common stock for 20 or more trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; (3) upon the occurrence of specified events described in the indenture for the 2016 Notes; and (4) at any time on or after December 15, 2015 through the second scheduled trading day immediately preceding the maturity date.

As noted in the indenture for the 2016 Notes, it is the Company's intent and policy to settle conversions through combination settlement, which essentially involves repayment of an amount of cash equal to the "principal portion" and delivery of the "share amount" in excess of the conversion value over the principal portion in shares of common stock. In general, for each $1,000 in principal, the "principal portion" of cash upon settlement is defined as the lesser of $1,000 , and the conversion value during the 20-day observation period as described in the indenture for the 2016 Notes. The conversion value

is the sum of the daily conversion value which is the product of the effective conversion rate divided by 20 days and the daily volume weighted average price ("VWAP") of the Company's common stock. The "share amount" is the cumulative "daily share amount" during the observation period, which is calculated by dividing the daily VWAP into the difference between the daily conversion value (i.e., conversion rate x daily VWAP) and $1,000.

The Company pays 0.25% interest per annum on the principal amount of the 2016 Notes, payable semiannually in arrears in cash on March 15 and September 15 of each year, which began on September 15, 2011. The Company made an interest payment of $1.1 million in September 2011. The 2016 Notes mature on March 15, 2016. If a designated event, as defined in the indenture for the 2016 Notes, such as acquisition, merger, or liquidation, occurs prior to the maturity date, subject to certain limitations, holders of the 2016 Notes may require the Company to repurchase all or a portion of their 2016 Notes for cash at a repurchase price equal to 100% of the principal amount of the 2016 Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the repurchase date.

The Company accounts separately for the liability and equity components of the 2016 Notes in accordance with authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. The guidance requires the carrying amount of the liability component to be estimated by measuring the fair value of a similar liability that does not have an associated conversion feature. Because the Company has no outstanding non-convertible public debt, the Company determined that senior, unsecured corporate bonds traded on the market represent a similar liability to the convertible senior notes without the conversion option. Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, the Company estimated the implied interest rate of its 2016 Notes to be 4.5%, assuming no conversion option. Assumptions used in the estimate represent what market participants would use in pricing the liability component, including market interest rates, credit standing, and yield curves, all of which are defined as Level 2 observable inputs. The estimated implied interest rate was applied to the 2016 Notes, which resulted in a fair value of the liability component of $748.5 million upon issuance, calculated as the present value of implied future payments based on the $920.0 million aggregate principal amount. The $155.4 million difference between the cash proceeds of $903.9 million and the estimated fair value of the liability component was recorded in additional paid-in capital as the 2016 Notes are not considered currently redeemable at the balance sheet date.

If the 2016 Notes were converted as of January 1, 2012 , the if-converted value would not exceed the principal amount. As a policy election under applicable guidance related to the calculation of diluted net income per share, the Company elected the combination settlement method as its stated settlement policy and applied the treasury stock method in the calculation of dilutive impact of the 2016 Notes, which was anti-dilutive for the year ended January 1, 2012 .

The Company used $314.3 million of the net proceeds to purchase 4,890,500 shares of its common stock in privately negotiated transactions concurrently with the issuance. The Company also used part of the net proceeds for the extinguishment of $349.9 million principal amount of its outstanding 0.625% convertible senior notes due 2014 upon conversions during the year ended January 1, 2012 .

0.625% Convertible Senior Notes due 2014

In February 2007, the Company issued $400.0 million principal amount of 0.625% convertible senior notes due 2014 (the 2014 Notes). The Company pays 0.625% interest per annum on the principal amount of the 2014 Notes, payable semi-annually in arrears in cash on February 15 and August 15 of each year. The Company made an interest payment of $1.2 million in February 2011 . Interest payment in August 2011 was immaterial due to conversions prior to the payment date. The 2014 Notes mature on February 15, 2014 .

The Company entered into hedge transactions concurrently with the issuance of the 2014 Notes under which the Company is entitled to purchase up to approximately 18,322,000 shares of the Company's common stock at a strike price of approximately $21.83 per share, subject to adjustment. The convertible note hedge transactions had the effect of reducing dilution to the Company's stockholders upon conversion of the 2014 Notes. Also concurrently with the issuance of the 2014 Notes, the Company sold to the hedge counterparties warrants exercisable, on a cashless basis, for up to approximately 18,322,000 shares of the Company's common stock at a strike price of $31.435 per share, subject to adjustment. The proceeds from these warrants partially offset the cost to the Company of the convertible note hedge transactions.

The 2014 Notes became convertible into cash and shares of the Company's common stock in various prior periods and were convertible through, and including, December 31, 2011. As of January 1, 2012, the conditions to permit conversion were no longer satisfied and, as a result, the 2014 Notes were classified in long-term liabilities. During the year ended January 1,

2012, the principal amount of all 2014 Notes converted was repaid with cash and the excess of the conversion value over the principal amount was paid in shares of common stock. The equity dilution resulting from the issuance of common stock related to the conversion of the 2014 Notes was offset by repurchase of the same amount of shares under the convertible note hedge transactions, which were automatically exercised in accordance with their terms at the time of each such conversion. The balance of the convertible note hedge transactions with respect to approximately $40.1 million principal amount of the 2014 Notes (which are convertible into up to 1,837,958 shares of the Company's common stock) remained in place as of January 1, 2012. The warrants were not affected by the early conversions of the 2014 Notes and, as a result, warrants covering up to approximately 18,322,000 shares of common stock remained outstanding as of January 1, 2012.

As a result of the conversions during the year ended January 1, 2012 , the Company recorded losses on extinguishment of debt calculated as the difference between the estimated fair value of the debt and the carrying value of the notes as of the settlement dates. To measure the fair value of the converted notes as of the settlement dates, the applicable interest rates were estimated using Level 2 observable inputs and applied to the converted notes using the same methodology as in the issuance date valuation. If the 2014 Notes were converted as of January 1, 2012 , the if-converted value would exceed the principal amount by $15.9 million .

The following table summarizes information about the conversions of the 2014 Notes during the year ended January 1, 2012 (in thousands, except percentages):

	January 1, 2012
Cash paid for principal of notes converted	$ 349,874
Conversion value over principal amount paid in shares of common stock	$ 727,618
Number of shares of common stock issued upon conversion	10,733
Loss on extinguishment of debt	$ 37,611
Effective interest rates used to measure fair value of converted notes upon conversion	3.5% - 4.3%

The following table summarizes information about the equity and liability components of the 2014 and 2016 Notes (dollars in thousands). The fair values of the respective notes outstanding were measured based on quoted market prices.

	January 1, 2012		January 2, 2011
	0.25% Convertible Senior Notes due 2016	0.625% Convertible Senior Notes due 2014	0.625% Convertible Senior Notes due 2014
Principal amount of convertible notes outstanding	$ 920,000	$ 40,125	$ 389,999
Unamortized discount of liability component	(147,034)	(5,722)	(78,390)
Net carrying amount of liability component	772,966	34,403	311,609
Less: current portion	—	—	(311,609)
Long-term debt	$ 772,966	$ 34,403	$ —
Conversion option subject to cash settlement	$ —	$ 5,722	$ 78,390
Carrying value of equity component, net of issuance costs	$ 155,366	$ 114,035	$ 71,199
Fair value of outstanding notes	$ 725,632	$ 60,122	$ 1,157,450
Remaining amortization period of discount on the liability component	4.2 years	2.1 years	3.1 years
Effective interest rate of liability component	4.5%	8.3%	8.3%
Contractual coupon interest expense	$ 1,871	$ 414	$ 2,390
Accretion of discount on the liability component	$ 24,502	$ 7,671	$ 21,407

9. Commitments

Operating Leases

The Company leases office and manufacturing facilities under various noncancellable operating lease agreements. Facility leases generally provide for periodic rent increases, and many contain escalation clauses and renewal options. Certain leases require the Company to pay property taxes and routine maintenance. The Company is headquartered in San Diego, California and leases facilities in San Diego, California; Hayward, California; Branford, Connecticut; Madison, Wisconsin; the United Kingdom; the Netherlands; Japan; Singapore; Australia; Brazil; and China.

Annual future minimum payments under these operating leases as of January 1, 2012 were as follows (in thousands):

2012	$	16,336
2013		22,598
2014		21,351
2015		20,355
2016		20,852
Thereafter		385,775
Total	$	487,267

Rent expense was $17.4 million, $14.7 million, and $13.6 million for the years ended January 1, 2012, January 2, 2011, and January 3, 2010, respectively.

In 2010, the Company entered into the lease agreement for its current corporate headquarters facility located in San Diego, California. The lease commenced on November 1, 2011 and has an initial term of 20 years with four five-year options to extend. There is a one-time option to terminate the lease after 15 years in exchange for an early termination fee. The lease includes two existing office buildings and a central plant building with approximately 346,600 square feet. The Company has also agreed to lease a third office building to be built at this facility containing approximately 123,400 rentable square feet. The Company has the right to further expand the premises and lease one or more of three additional office buildings that may be built at this facility. Total minimum lease payments during the initial term of the lease is expected to be $355.9 million , excluding further expansion beyond the third building, and taking no consideration of tenant improvement allowances totaling $21.9 million . The Company capitalizes the leasehold improvements and amortizes them over the shorter of the lease term or their expected useful life. The leasehold improvement allowances reduce rent expense over the initial lease term.

Lease commitments of $100.0 million related to the lease for the Company's former headquarters are also included in the table above. Upon vacating certain buildings of its former headquarters in late 2011, the Company recorded a cease-use loss of $23.6 million and a corresponding facility exit obligation of $25.0 million, as the Company is further obligated for certain ongoing operating costs prior to any sublease that may be obtained.

The facility exit obligation as of January 1, 2012 is as follows (in thousands):

		January 1, 2012
Facility exit obligation, current portion	$	4,408
Facility exit obligation, non-current		20,641
Total facility exit obligation	$	25,049

10. Share-based Compensation Expense

Total share-based compensation expense for all stock awards consists of the following (in thousands):

	Years Ended		
	January 1, 2012	January 2, 2011	January 3, 2010
Cost of product revenue	$ 6,951	$ 5,378	$ 4,776
Cost of service and other revenue	695	470	514
Research and development	32,105	25,428	19,960
Selling, general and administrative	52,341	40,369	35,561
Share-based compensation expense before taxes	92,092	71,645	60,811
Related income tax benefits	(32,168)	(25,231)	(20,121)
Share-based compensation expense, net of taxes	$ 59,924	$ 46,414	$ 40,690

The assumptions used for the specified reporting periods and the resulting estimates of weighted-average fair value per share of options granted and for stock purchased under the ESPP during those periods are as follows:

	Years Ended		
	January 1, 2012	January 2, 2011	January 3, 2010
Stock options granted:			
Risk-free interest rate	0.85 - 2.23%	2.05 - 2.73%	1.69 - 1.97%
Expected volatility	41 - 53%	46 - 48%	55 - 58%
Expected term	4.7 - 5.5 years	6.0 years	5.2 years
Expected dividends	—	—	—
Stock purchased under the ESPP:			
Risk-free interest rate	0.16 - 0.30%	0.17 - 0.48%	0.28 - 2.90%
Expected volatility	43 - 48%	46 - 48%	48 - 58%
Expected term	0.5 - 1.0 years	0.5 - 1.0 years	0.5 - 1.0 years
Expected dividends	—	—	—

As of January 1, 2012, approximately $158.9 million of total unrecognized compensation cost related to stock options, restricted stock units, and ESPP shares issued to date is expected to be recognized over a weighted-average period of approximately 2.4 years.

11. Stockholders' Equity

Common Stock

On January 1, 2012 and January 2, 2011, the Company had 122,041,000 and 126,607,000 shares of common stock outstanding, respectively, excluding treasury shares.

Stock Options

On January 1, 2012 , the Company had three active stock plans: the 2005 Stock and Incentive Plan (the 2005 Stock Plan), the 2005 Solexa Equity Incentive Plan (the 2005 Solexa Equity Plan), and the New Hire Stock and Incentive Plan. As of January 1, 2012 , options to purchase 5,220,000 shares remained available for future grant under the 2005 Stock Plan and 2005 Solexa Equity Plan. There is no set number of shares reserved for issuance under the New Hire Stock and Incentive Plan.

Stock options granted at the time of hire primarily vest over a four or five-year period, with 20% or 25% of options vesting on the first anniversary of the grant date and the remaining options vesting monthly over the remaining vesting period. Stock options granted subsequent to hiring primarily vest monthly over a four or five-year period. Each grant of options has a maximum term of ten years, measured from the applicable grant date, subject to earlier termination if the optionee's service with us ceases. Vesting in all cases is subject to the individual's continued service to us through the vesting date. The Company satisfies option exercises through the issuance of new shares.

The Company's stock option activity under all stock option plans from December 28, 2008 through January 1, 2012 is as follows:

	Options (in thousands)	Weighted-Average Exercise Price	Weighted Average Grant-Date Fair Value per Share
Outstanding at December 28, 2008	18,134	$ 16.26	
Granted	1,560	28.86	$ 14.74
Exercised	(2,966)	10.56	
Cancelled	(639)	14.88	
Outstanding at January 3, 2010	16,089	18.59	
Granted	2,045	39.11	18.82
Exercised	(5,541)	16.65	
Cancelled	(711)	21.76	
Outstanding at January 2, 2011	11,882	22.83	
Granted	1,399	64.98	$ 27.47
Exercised	(2,784)	17.98	
Cancelled	(119)	33.49	
Outstanding at January 1, 2012	10,378	$ 29.69	

At January 1, 2012 , outstanding options to purchase 7,126,000 shares were exercisable with a weighted average per share exercise price of $23.58 . The weighted average remaining life of options outstanding and exercisable is 6.1 years and 5.4 years, respectively, as of January 1, 2012 .

The aggregate intrinsic value of options outstanding and options exercisable as of January 1, 2012 was $78.3 million and $71.2 million, respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price per share on the last trading day of the fiscal period, which was $30.48 as of December 30, 2011, and the exercise price multiplied by the number of options outstanding. Total intrinsic value of options exercised was $136.5 million, $156.9 million, and $73.4 million for the years ended January 1, 2012, January 2, 2011, and January 3, 2010, respectively. Total fair value of options vested was $49.5 million, $47.3 million, and $52.2 million for the years ended January 1, 2012, January 2, 2011, and January 3, 2010, respectively.

Employee Stock Purchase Plan

A total of 15,467,000 shares of the Company's common stock have been reserved for issuance under its 2000 Employee Stock Purchase Plan, or ESPP. The ESPP permits eligible employees to purchase common stock at a discount, but only through payroll deductions, during defined offering periods. The price at which stock is purchased under the ESPP is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. The initial offering period commenced in July 2000.

The ESPP provides for annual increases of shares available for issuance by the lesser of 3% of the number of outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year, 3,000,000 shares or such lesser amount as determined by the Company's board of directors. Shares totaling 328,000 , 373,000 , and 360,000 were issued under the ESPP during the years ended January 1, 2012 , January 2, 2011 , and January 3, 2010 , respectively. The weighted average subscription date fair values of shares under the ESPP during the same periods were $20.08 , $11.10 , and $9.24 , respectively. As of January 1, 2012 and January 2, 2011 , there were 15,734,000 shares and 16,062,000 shares available for issuance under the ESPP, respectively.

Restricted Stock Units

The Company grants restricted stock units (RSUs) pursuant to its 2005 Stock and Incentive Plan as part of its periodic employee equity compensation review program. RSUs are share awards that, upon vesting, will deliver to the holder shares of

the Company's common stock. For grants to new hires prior to July 2011, RSUs generally vest 15% on the first anniversary of the grant date, 20% on the second anniversary of the grant date, 30% on the third anniversary of the grant date, and 35% on the fourth anniversary of the grant date. For grants to new hires subsequent to July 2011, RSUs generally vest over a four-year period with equal vesting on anniversaries of the grant date. For grants to existing employees, RSUs generally vest over a four-year period with 15% vesting on the first anniversary of the grant date, 20% vesting on the second anniversary of the grant date, 30% vesting on the third anniversary of the grant date, and 35% vesting on the fourth anniversary of the grant date. The Company satisfies RSU vesting through the issuance of new shares.

A summary of the Company's RSU activity and related information from December 28, 2008 through January 1, 2012 is as follows:

	Restricted Stock Units (in thousands)[1]	Weighted Average Grant-Date Fair Value per Share
Outstanding at December 28, 2008	1,579	$ 32.68
Awarded	1,293	32.25
Vested	(246)	32.33
Cancelled	(117)	33.19
Outstanding at January 3, 2010	2,509	32.45
Awarded	1,353	50.74
Vested	(510)	32.10
Cancelled	(243)	33.36
Outstanding at January 2, 2011	3,109	40.39
Awarded	1,550	42.02
Vested	(827)	36.47
Cancelled	(356)	42.15
Outstanding at January 1, 2012	3,476	$ 41.87

(1) Each RSU represents the fair market value of one share of common stock.

Based on the closing price per share of the Company's common stock of $30.48 and $63.34 on December 30, 2011 and December 31, 2010, respectively, the total pretax intrinsic value of all outstanding RSUs as of January 1, 2012 and January 2, 2011 was $145.5 million and $125.6 million, respectively. Total fair value of RSUs vested was $30.2 million, $16.4 million, and $8.0 million for the years ended January 1, 2012, January 2, 2011, and January 3, 2010, respectively.

Warrants

During the year ended January 1, 2012 , the remaining warrants assumed by the Company in a prior acquisition to purchase approximately 505,000 shares of the Company's common stock were exercised, resulting in cash proceeds to the Company of approximately $5.5 million . As of January 1, 2012 , warrants exercisable, on a cashless basis, for up to approximately 18,322,000 shares of common stock were outstanding with an exercise price of $31.435 . These warrants were sold to counterparties to the Company's convertible note hedge transactions in connection with the offering of the Company's 2014 Notes, with the proceeds of such warrants used by the Company to partially offset the cost of such hedging transactions. All outstanding warrants expire in equal installments during the 40 consecutive scheduled trading days beginning on May 16, 2014.

Share Repurchases

In August 2011, the Company's board of directors authorized a $100 million discretionary repurchase program. During the year ended January 1, 2012, the Company utilized the authorized amount in its entirety and repurchased approximately 1,894,000 shares under this program.

Concurrently with the issuance of the Company's 2016 Notes in March 2011, 4,890,500 shares were repurchased for

$314.3 million.

In July 2010, the Company's board of directors authorized a $200 million stock repurchase program, with $100 million allocated to repurchasing Company common stock under a 10b5-1 plan over a 12 month period and $100 million allocated to repurchasing Company common stock at management's discretion during open trading windows. During the year ended January 1, 2012, the Company repurchased approximately 2,438,000 shares for $156.0 million. The authorized repurchase amount had been utilized completely as of January 1, 2012.

In November 2009, upon the completion of the $75.0 million repurchase program authorized by the Company's board of directors in July 2009, our board of directors authorized an additional $100.0 million stock repurchase program. In fiscal 2009, the Company repurchased a total of 6.1 million shares for $175.1 million , under both programs in open-market transactions or through privately negotiated transactions in compliance with Rule 10b-18 under the Securities Exchange Act of 1934. This program expired at the end of 2009.

Stockholder Rights Plan

On May 3, 2001, the board of directors of the Company declared a dividend of one preferred share purchase right (a Right) for each outstanding share of common stock of the Company. The dividend was payable on May 14, 2001 to the stockholders of record on that date. Each Right entitles the registered holder to purchase from the Company one unit consisting of one thousandth of a share of its Series A Junior Participating Preferred Stock at a price of $100 per unit. The Rights will be exercisable if a person or group hereafter acquires beneficial ownership of 15% or more of the outstanding common stock of the Company or announces an offer for 15% or more of the outstanding common stock. If a person or group acquires 15% or more of the outstanding common stock of the Company, each Right will entitle its holder to purchase, at the exercise price of the Right, a number of shares of common stock having a market value of two times the exercise price of the Right. If the Company is acquired in a merger or other business combination transaction after a person acquires 15% or more of the Company's common stock, each Right will entitle its holder to purchase, at the Right's then-current exercise price, a number of common shares of the acquiring company which at the time of such transaction have a market value of two times the exercise price of the Right. The board of directors will be entitled to redeem the Rights at a price of $0.01 per Right at any time before any such person acquires beneficial ownership of 15% or more of the outstanding common stock. The Rights expired on May 14, 2011.

On January 25, 2012, the board of directors of the Company declared a dividend of one preferred share purchase right (a Right) for each outstanding share of common stock of the Company. Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock of the Company, par value $0.01 per share (the Preferred Shares), at a price of $275.00 per one one thousandth of a Preferred Share, subject to adjustment. The Rights will not be exercisable until such time, if ever, that the board of directors determines to eliminate its deferral of the date on which separate Rights certificates are issued and the Rights trade separately from the Company's common stock (the Distribution Date). If a person or group acquires 15% or more of the outstanding common stock of the Company, each Right will entitle its holder to purchase, at the exercise price of the Right, a number of shares of common stock having a market value of two times the exercise price of the Right. If the Company is acquired in a merger or other business combination transaction after a person acquires 15% or more of the Company's common stock, each Right will entitle its holder to purchase, at the Right's then-current exercise price, a number of common shares of the acquiring company which at the time of such transaction have a market value of two times the exercise price of the Right. The board of directors will be entitled to redeem the Rights at a price of $0.001 per Right at any time before the Distribution Date. The board of directors will also be entitled to exchange the Rights at an exchange ratio per Right of one share of common stock after any person acquires beneficial ownership of 15% or more of the outstanding common stock of the Company, and prior to the acquisition of 50% or more of the outstanding common stock of the Company. The Rights will expire on January 26, 2017.

12. Legal Proceedings

The Company is involved in various lawsuits and claims arising in the ordinary course of business, including actions with respect to intellectual property, employment, and contractual matters. In connection with these matters, the Company assesses contingencies to determine the degree of probability and range of possible loss for potential accrual in its financial statements. An estimated loss contingency is accrued in the financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because litigation is inherently unpredictable and unfavorable resolutions could occur, assessing contingencies is highly subjective and requires judgments about future events. The Company regularly

reviews contingencies to determine the adequacy of the accruals and related disclosures. The amount of ultimate loss may differ from these estimates. Because of the uncertainties related to the occurrence, amount, and range of loss on any pending litigation or claim, management is currently unable to predict their ultimate outcome, to determine whether a liability has been incurred, or to make a meaningful estimate of the reasonably possible loss or range of loss that could result from an unfavorable outcome. The Company believes, however, that the liability, if any, resulting from the aggregate amount of losses for any outstanding litigation or claim will not have a material adverse effect on the Company's consolidated financial position, liquidity, or results of operations.

13. Income Taxes

The income (loss) before income taxes summarized by region is as follows (in thousands):

	Years Ended		
	January 1, 2012	January 2, 2011	January 3, 2010
United States	$ (7,100)	$ 109,068	$ 65,081
Foreign	140,145	76,311	49,044
Total income before income taxes	$ 133,045	$ 185,379	$ 114,125

The provision for income taxes consists of the following (in thousands):

	Years Ended		
	January 1, 2012	January 2, 2011	January 3, 2010
Current:			
Federal	$ 43,161	$ 39,476	$ 43,565
State	3,958	8,607	2,511
Foreign	24,154	6,330	6,204
Total current provision	71,273	54,413	52,280
Deferred:			
Federal	(22,738)	6,557	(14,607)
State	(8,050)	(6,808)	5,184
Foreign	5,932	6,326	(1,013)
Total deferred provision (benefit)	(24,856)	6,075	(10,436)
Total tax provision	$ 46,417	$ 60,488	$ 41,844

The provision for income taxes reconciles to the amount computed by applying the federal statutory rate to income before taxes as follows (in thousands):

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Years Ended		
	January 1, 2012	January 2, 2011	January 3, 2010
Tax at federal statutory rate	$ 46,566	$ 64,881	$ 39,944
State, net of federal benefit	(49)	6,231	4,275
Research and other credits	(6,774)	(5,859)	(4,050)
Acquired in-process research & development	1,989	517	4,386
Change in valuation allowance	(688)	(9,497)	(1,967)
Permanent differences	1,668	1,397	2,093
Change in fair value of contingent consideration	(1,311)	(3,632)	—
Impact of foreign operations	5,579	7,597	(5,400)
Other	(563)	(1,147)	2,563
Total tax provision	$ 46,417	$ 60,488	$ 41,844

Significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	January 1, 2012	January 2, 2011
Deferred tax assets:		
Net operating losses	$ 4,981	$ 11,898
Tax credits	16,647	18,329
Other accruals and reserves	22,411	17,616
Stock compensation	33,811	23,829
Inventory adjustments	16,469	5,573
Impairment of cost-method investment	4,972	5,058
Other amortization	4,521	4,893
Other	8,861	3,588
Total gross deferred tax assets	112,673	90,784
Valuation allowance on deferred tax assets	(1,799)	(4,986)
Total deferred tax assets	110,874	85,798
Deferred tax liabilities:		
Purchased intangible amortization	(19,760)	(22,605)
Convertible debt	(49,404)	(3,191)
Other	(12,322)	(7,137)
Total deferred tax liabilities	(81,486)	(32,933)
Net deferred tax assets	$ 29,388	$ 52,865

A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction-by-jurisdiction basis, and includes a review of all available positive and negative evidence. During the year ended January 1, 2012 , the valuation allowance decreased by $3.2 million primarily due to the dissolution of a dormant foreign subsidiary that was finalized during the fourth quarter. Based on the available evidence as of January 1, 2012 , the Company was not able to conclude it is more likely than not certain U.S. and foreign deferred tax assets will be realized. Therefore, the Company recorded a valuation allowance of $1.8 million against certain U.S. deferred tax assets.

As of January 1, 2012, the Company had net operating loss carryforwards for federal and state tax purposes of $25.2 million and $162.0 million, respectively, which begin to expire in 2020 and 2013, respectively, unless utilized prior. In addition, the Company also had U.S. federal and state research and development tax credit carryforwards of $11.0 million and $34.3 million, respectively, which begin to expire in 2028 and 2019, respectively, unless utilized prior.

Pursuant to Section 382 and 383 of the Internal Revenue Code, utilization of the Company's net operating loss and credits may be subject to annual limitations in the event of any significant future changes in its ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization. The deferred tax assets as of January 1, 2012 are net of any previous limitations due to Section 382 and 383.

The Company recognizes excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company. During the year ended January 1, 2012 , the Company realized $43.1 million of such excess tax benefits, and accordingly recorded a corresponding credit to additional paid in capital. As of January 1, 2012 , the Company has $12.8 million of unrealized excess tax benefits associated with share-based compensation. These tax benefits will be accounted for as a credit to additional paid-in capital, if and when realized, rather than a reduction of the provision for income taxes.

The Company's manufacturing operations in Singapore operate under various tax holidays and incentives that begin to expire in 2018. For the year ended January 1, 2012, these tax holidays and incentives resulted in an approximate $4.4 million decrease to the provision for income taxes and an increase to net income per diluted share of $0.03.

It is the Company's intention to indefinitely reinvest all current and future foreign earnings in order to ensure sufficient working capital and expand existing operations outside the United States. Accordingly, residual U.S. income taxes have not been provided on $102.8 million of undistributed earnings of foreign subsidiaries as of January 1, 2012. In the event the Company was required to repatriate funds from outside of the United States, such repatriation would be subject to local laws, customs, and tax consequences.

The following table summarizes the gross amount of the Company's uncertain tax positions (in thousands):

	January 1, 2012	January 2, 2011	January 3, 2010
Balance at beginning of year	$ 22,729	$ 11,760	$ 9,402
Increases related to prior year tax positions	875	5,066	—
Decreases related to prior year tax positions	(382)	—	—
Increases related to current year tax positions	5,174	5,903	2,358
Balance at end of year	$ 28,396	$ 22,729	$ 11,760

Included in the balance of uncertain tax positions as of January 1, 2012, and January 2, 2011 are $23.4 million and $18.3 million, respectively, of net unrecognized tax benefits that, if recognized, would reduce the Company's effective income tax rate in future periods.

The Company does not expect its uncertain tax positions to change significantly over the next 12 months. Any interest and penalties related to uncertain tax positions are reflected in income tax expense. During 2011, the Company recognized expenses of $1.1 million related to potential interest and penalties on uncertain tax positions. A minimal amount was recognized in 2010 for potential interest and penalties on uncertain tax positions. The Company recorded a liability for potential interest and penalties of $1.2 million as of January 1, 2012 and the liability was minimal as of January 2, 2011. Tax years 1997 to 2011 remain subject to future examination by the major tax jurisdictions in which the Company is subject to tax.

14. Employee Benefit Plans

Retirement Plan

The Company has a 401(k) savings plan covering substantially all of its employees. Company contributions to the plan are discretionary. During the years ended January 1, 2012, January 2, 2011, and January 3, 2010, the Company made matching contributions of $5.3 million, $4.2 million, and $3.3 million, respectively.

Deferred Compensation Plan

The Company adopted the Illumina, Inc. Deferred Compensation Plan (the Plan) that became effective January 1, 2008. Eligible participants, which include the Company's senior level employees and members of the board of directors, can contribute up to 80% of their base salary and 100% of all other forms of compensation into the Plan, including bonus, equity awards, commission, and director fees. The Company has agreed to credit the participants' contributions with earnings that reflect the performance of certain independent investment funds. On a discretionary basis, the Company may also make employer contributions to participant accounts in any amount determined by the Company. The vesting schedules of employer contributions are at the sole discretion of the Compensation Committee. However, all employer contributions shall become 100% vested upon the occurrence of the participant's disability, death or retirement or a change in control of the Company. The benefits under this plan are unsecured. Participants are generally eligible to receive payment of their vested benefit at the end of their elected deferral period or after termination of their employment with the Company for any reason or at a later date to comply with the restrictions of Section 409A. As of January 1, 2012, no employer contributions were made to the Plan.

In January 2008, the Company also established a rabbi trust for the benefit of the participants under the Plan. In accordance with authoritative guidance related to consolidation of variable interest entities and accounting for deferred compensation arrangements where amounts earned are held in a rabbi trust and invested, the Company has included the assets of the rabbi trust in its consolidated balance sheet since the trust's inception. As of January 1, 2012 and January 2, 2011, the assets of the trust were $10.8 million and $6.4 million, respectively, and liabilities of the Company were $9.0 million and $5.3 million, respectively. The assets and liabilities are classified as other assets and accrued liabilities, respectively, on the Company's consolidated balance sheets. Changes in the values of the assets held by the rabbi trust are recorded in other (expense) income, net in the consolidated statement of income, and changes in the values of the deferred compensation liabilities are recorded in selling, general and administrative expenses.

15. Segment Information, Geographic Data, and Significant Customers

The Company is organized in two operating segments: Life Sciences and Diagnostics. Life Sciences operating segment includes all products and services related to the research market, namely the product lines based on the Company's sequencing, BeadArray, VeraCode, and real-time PCR technologies. The Diagnostics operating segment focuses on the emerging opportunity in molecular diagnostics. During all periods presented, the Diagnostics operating segment had limited activity. Accordingly, the Company's operating results for both units were reported on an aggregate basis as one reportable segment. The Company will begin reporting in two segments once revenues, operating profit or loss, or assets of the Diagnostics operating segment exceeds 10% of the consolidated amounts.

The Company had revenue in the following regions for the years ended January 1, 2012, January 2, 2011, and January 3, 2010 (in thousands):

	Years Ended		
	January 1, 2012	January 2, 2011	January 3, 2010
United States	$ 528,723	$ 498,981	$ 347,195
United Kingdom	67,578	60,521	55,854
Other European countries	210,393	163,062	140,931
Asia-Pacific	197,005	143,441	96,396
Other markets	51,836	36,736	25,948
Total	$ 1,055,535	$ 902,741	$ 666,324

Net revenues are attributable to geographic areas based on the region of destination.

The majority of our product sales consist of consumables and instruments. For the years ended January 1, 2012, January 2, 2011, and January 3, 2010, consumable sales represented 56%, 56%, and 59%, respectively, of total revenues and instrument sales comprised 35%, 36%, and 34%, respectively, of total revenues. The Company's customers include leading genomic research centers, academic institutions, government laboratories, and clinical research organizations, as well as pharmaceutical, biotechnology, agrigenomics, and consumer genomics companies. The Company had no customers that provided more than 10% of total revenue in the years ended January 1, 2012, January 2, 2011, and January 3, 2010.

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Net long-lived assets exclude goodwill and other intangible assets since they are not allocated on a geographic basis. The Company had net long-lived assets consisting of property and equipment in the following regions as of January 1, 2012 and January 2, 2011 (in thousands):

	January 1, 2012	January 2, 2011
United States	$ 94,624	$ 75,050
United Kingdom	22,642	26,578
Singapore	14,673	14,739
Other countries	11,544	13,507
Total	$ 143,483	$ 129,874

16. Quarterly Financial Information (unaudited)

The following financial information reflects all normal recurring adjustments, except as noted below, which are, in the opinion of management, necessary for a fair statement of the results and cash flows of interim periods. All quarters for fiscal years 2011 and 2010 ended January 1, 2012 and January 2, 2011, respectively were 13 weeks. Summarized quarterly data for fiscal years 2011 and 2010 are as follows (in thousands except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2011:				
Total revenue	$ 282,515	$ 287,450	$ 235,499	$ 250,071
Gross profit	188,041	193,356	157,115	170,586
Net income	24,137	30,620	20,151	11,720
Net income per share, basic	0.19	0.25	0.17	0.10
Net income per share, diluted	0.16	0.22	0.15	0.09
2010:				
Total revenue	$ 192,131	$ 212,003	$ 237,309	$ 261,298
Gross profit	132,178	146,091	157,145	166,126
Net income	21,208	29,796	35,447	38,440
Net income per share, basic	0.18	0.24	0.28	0.31
Net income per share, diluted	0.16	0.21	0.24	0.25

17. Subsequent Event

On January 27, 2012, CKH Acquisition Corporation, a Delaware corporation and an indirect wholly-owned subsidiary of Roche Holding Ltd, a joint stock company organized under the laws of Switzerland (together, "Roche"), commenced an unsolicited tender offer (the "Offer") to purchase all outstanding shares of common stock of the Company for $44.50 per share. As more fully described in the Company's Solicitation/Recommendation on Schedule 14D-9 filed with the SEC on February 7, 2012 in response to the Offer, the Board of Directors unanimously recommended that the Company's stockholders reject the Roche offer and not tender their shares to Roche for purchase.

ITEM 9. *Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.*

None.

ITEM 9A. *Controls and Procedures.*

We design our internal controls to provide reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported in conformity with U.S. generally accepted accounting principles. We also maintain internal controls and procedures to ensure that we comply with applicable laws and our established financial policies.

Exhibit 225

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 30, 2012

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to .

Commission file number: 001-35406

Illumina, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**33-0804655**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
5200 Illumina Way San Diego, California	**92122**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code: (858) 202-4500

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value (including associated Preferred Stock Purchase Rights)	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of January 31, 2013, there were 124,040,754 shares (excluding 46,449,505 shares held in treasury) of the Registrant's Common Stock outstanding. The aggregate market value of the Common Stock held by non-affiliates of the Registrant as of July 2, 2012 (the last business day of the registrant's most recently completed second fiscal quarter), based on the closing price for the Common Stock on The NASDAQ Global Select Market on June 29, 2012 (the last trading day before July 2, 2012), was $3.8 billion. This amount excludes an aggregate of approximately 29.3 million shares of Common Stock held by officers and directors and each person known by the registrant to own 10% or more of the outstanding Common Stock. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, directly or indirectly, to direct or cause the direction of the management or policies of the registrant, or that the registrant is controlled by or under common control with such person.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2013 annual meeting of stockholders are incorporated by reference into Items 10 through 14 of Part III of this Report.

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)

	Years Ended		
	December 30, 2012	January 1, 2012	January 2, 2011
Revenue:			
Product revenue	$ 1,055,826	$ 987,280	$ 842,510
Service and other revenue	92,690	68,255	60,231
Total revenue	1,148,516	1,055,535	902,741
Cost of revenue:			
Cost of product revenue	317,283	308,228	271,997
Cost of service and other revenue	43,552	26,118	21,399
Amortization of acquired intangible assets	14,153	12,091	7,805
Total cost of revenue	374,988	346,437	301,201
Gross profit	773,528	709,098	601,540
Operating expense:			
Research and development	231,025	196,913	177,947
Selling, general and administrative	285,991	261,843	220,454
Headquarter relocation expense	26,328	41,826	—
Unsolicited tender offer related expense	23,136	—	—
Restructuring charges	3,522	8,136	—
Acquisition related expense (gain), net	2,774	919	(8,515)
Total operating expense	572,776	509,637	389,886
Income from operations	200,752	199,461	211,654
Other income (expense):			
Cost-method investment related gain (loss), net	45,911	—	(10,309)
Interest income	16,208	7,052	8,378
Interest expense	(37,779)	(34,790)	(24,598)
Other (expense) income, net	(2,484)	(38,678)	254
Total other income (expense), net	21,856	(66,416)	(26,275)
Income before income taxes	222,608	133,045	185,379
Provision for income taxes	71,354	46,417	60,488
Net income	$ 151,254	$ 86,628	$ 124,891
Net income per basic share	$ 1.23	$ 0.70	$ 1.01
Net income per diluted share	$ 1.13	$ 0.62	$ 0.87
Shares used in calculating basic net income per share	122,999	123,399	123,581
Shares used in calculating diluted net income per share	133,693	138,937	143,433

See accompanying notes to consolidated financial statements

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unless the context requires otherwise, references in this report to "Illumina," "we," "us," the "Company," and "our" refer to Illumina, Inc. and its consolidated subsidiaries.

1. Organization and Summary of Significant Accounting Policies

Organization and Business

Illumina, Inc. is a leading developer, manufacturer, and marketer of life science tools and integrated systems for the analysis of genetic variation and function. Using its proprietary technologies, Illumina provides a comprehensive line of genetic analysis solutions, with products and services that address a broad range of highly interconnected markets, including sequencing, genotyping, gene expression, and genomic-based diagnostics. The Company's customers include leading genomic research centers, academic institutions, government laboratories, and clinical research organizations, as well as pharmaceutical, biotechnology, agrigenomics, consumer genomics companies, and in vitro fertilization clinics.

Basis of Presentation

The consolidated financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles and include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Fiscal Year

The Company's fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, September 30, and December 31. The years ended December 30, 2012, January 1, 2012, and January 2, 2011 were 52 weeks, respectively.

Use of Estimates

The preparation of financial statements requires that management make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

Segment Information

The Company is organized in two operating segments for purposes of recording and reporting our financial results: Life Sciences and Diagnostics. The Life Sciences operating segment includes all products and services related to the research market, namely the product lines based on the Company's sequencing, BeadArray, and real-time polymerase chain reaction (PCR) technologies. The Diagnostics operating segment focuses on the clinical and personalized application of our products and services for such uses as diagnosing disease, identifying genetic abnormalities, and identifying effective treatment therapies, with an initial emphasis on reproductive health and cancer. During all periods presented, the Diagnostics operating segment had been immaterial to the financial statements as a whole. Accordingly, the Company's operating results for both segments are reported on an aggregate basis as one reportable segment. The Company will begin reporting in two reportable segments once revenue, operating profit or loss, or asset of the Diagnostics operating segment exceeds 10% of the consolidated amounts.

Acquisitions

The Company measures all assets acquired and liabilities assumed, including contingent considerations and all contractual contingencies, at fair value as of the acquisition date. Contingent purchase considerations settled in cash are remeasured to estimated fair value at each reporting period with the change in fair value recorded in acquisition related expense (gain), net, a component of operating expenses. In addition, the Company capitalizes in-process research and development (IPR&D) and either amortizes it over the life of the product upon commercialization, or writes it off if the project is abandoned

or impaired. Post-acquisition adjustments related to business combination deferred tax asset valuation allowances and liabilities for uncertain tax positions are recorded in current period income tax expense.

Cash Equivalents and Short-Term Investments

Cash equivalents are comprised of short-term, highly liquid investments with maturities of 90 days or less at the date of purchase.

Short-term investments consist of U.S. treasury securities, debt securities in U.S. government-sponsored entities, and corporate debt securities. Management classifies short-term investments as available-for-sale at the time of purchase and evaluates such classification as of each balance sheet date. All short-term investments are recorded at estimated fair value. Unrealized gains and losses for available-for-sale securities are included in accumulated other comprehensive income, a component of stockholders' equity. The Company evaluates its investments to assess whether those with unrealized loss positions are other than temporarily impaired. Impairments are considered to be other than temporary if they are related to deterioration in credit risk or if it is likely that the Company will sell the securities before the recovery of their cost basis. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in other (expense) income, net in the consolidated statements of income.

Fair Value Measurements

The Company determines the fair value of its assets and liabilities based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The Company uses a fair value hierarchy with three levels of inputs, of which the first two are considered observable and the last unobservable, to measure fair value:

- *Level 1* — Quoted prices in active markets for identical assets or liabilities.
- *Level 2* — Inputs, other than Level 1, that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- *Level 3* — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying amounts of financial instruments such as cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, and accrued liabilities, excluding acquisition related contingent consideration liabilities, approximate the related fair values due to the short-term maturities of these instruments.

Accounts Receivable

Trade accounts receivable are recorded at the net invoice value and are not interest bearing. The Company considers receivables past due based on the contractual payment terms. The Company reserves specific receivables if collectibility is no longer reasonably assured. The Company also reserves a percentage of its trade receivable balance based on collection history and current economic trends that might impact the level of future credit losses. The Company re-evaluates such reserves on a regular basis and adjusts its reserves as needed.

Concentrations of Risk

The Company operates in markets that are highly competitive and rapidly changing. Significant technological changes, shifting customer needs, the emergence of competitive products or services with new capabilities, and other factors could negatively impact the Company's operating results. A significant portion of the Company's customers consist of university and research institutions that management believes are, to some degree, directly or indirectly supported by the United States Government. A significant change in current research funding, particularly with respect to the National Institutes of Health, could have a material adverse impact on the Company's future revenues and results of operations.

The Company is also subject to risks related to its financial instruments including its cash and cash equivalents, investments, and accounts receivable. Most of the Company's cash and cash equivalents as of December 30, 2012 were deposited with U.S. financial institutions, either domestically or with their foreign branches. The Company's investment policy

restricts the amount of credit exposure to any one issuer to 5% of the portfolio at the time of purchase and to any one industry sector, as defined by Bloomberg classifications, to 25% of the portfolio at the time of purchase. There is no limit to the percentage of the portfolio that may be maintained in U.S. treasury securities, debt securities in U.S. government-sponsored entities, and money market funds.

The Company's products require customized components that currently are available from a limited number of sources. The Company obtains certain key components included in its products from single vendors.

The Company performs a regular review of customer activity and associated credit risks and does not require collateral or enter into netting arrangements. Shipments to customers outside the United States comprised 51%, 50%, and 45% of the Company's revenue for the years ended December 30, 2012, January 1, 2012, and January 2, 2011, respectively. Customers outside the United States represented 54% and 52% of the Company's gross trade accounts receivable balance as of December 30, 2012 and January 1, 2012, respectively.

International sales entail a variety of risks, including currency exchange fluctuations, longer payment cycles, and greater difficulty in accounts receivable collection. The Company is also subject to general geopolitical risks, such as political, social and economic instability, and changes in diplomatic and trade relations. The risks of international sales are mitigated in part by the extent to which sales are geographically distributed. The Company has historically not experienced significant credit losses from investments and accounts receivable. Approximately 18% of the Company's revenue is derived from European countries other than the United Kingdom. As the credit and economic conditions in certain southern European countries continue to deteriorate, the Company regularly reviews its accounts receivable outstanding in these countries and assesses the allowance for doubtful accounts accordingly. As of December 30, 2012, outstanding accounts receivables beyond standard payment terms from these countries accounted for approximately 5% of the Company's accounts receivable balance, and the Company has not experienced significant difficulties in collecting the accounts receivable outstanding in these countries.

Inventory

Inventory is stated at the lower of cost (on a first in, first out basis) or market. Inventory includes raw materials and finished goods that may be used in the research and development process and such items are expensed as consumed or expired. Provisions for slow moving, excess, and obsolete inventories are estimated based on product life cycles, quality issues, historical experience, and usage forecasts.

Property and Equipment

Property and equipment are stated at cost, subject to review of impairment, and depreciated over the estimated useful lives of the assets (generally three to seven years) using the straight-line method. Amortization of leasehold improvements is recorded over the shorter of the lease term or the estimated useful life of the related assets. Maintenance and repairs are charged to operations as incurred. When assets are sold, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in operating expense.

Goodwill, Intangible Assets and Other Long-Lived Assets

Goodwill, which has an indefinite useful life, represents the excess of cost over fair value of net assets acquired. The change in the carrying value of goodwill during the year ended December 30, 2012 was due to goodwill recorded in connection with the BlueGnome acquisition. Goodwill is reviewed for impairment at least annually during the second quarter, or more frequently if an event occurs indicating the potential for impairment. During its goodwill impairment review, the Company may assess qualitative factors to determine whether it is more likely than not that the fair value of its single reporting unit is less than its carrying amount, including goodwill. The qualitative factors include, but are not limited to, macroeconomic conditions, industry and market considerations, and the overall financial performance of the Company. If, after assessing the totality of these qualitative factors, the Company determines that it is not more likely than not that the fair value of its reporting unit is less than its carrying amount, then no more assessment is deemed necessary. Otherwise, the Company proceeds to perform the two-step test for goodwill impairment. The first step involves comparing the estimated fair value of the reporting unit with its carrying value, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the Company performs the second step of the goodwill impairment test to determine the amount of loss, which involves comparing the implied fair value of the goodwill to the carrying value of the goodwill. The Company may also elect to bypass the qualitative assessment in a period and elect to proceed to perform the first step of the goodwill impairment test. The Company performed its annual assessment for goodwill impairment in the second quarter of 2012, noting no impairment.

The Company's identifiable intangible assets are typically comprised of acquired core technologies, licensed technologies, IPR&D, customer relationships, and trade names. The cost of all identifiable intangible assets with finite lives is amortized on a straight-line basis over the assets' respective estimated useful lives.

IPR&D, which also has an indefinite useful life, is reviewed for impairment at least annually, or more frequently if an event occurs indicating the potential for impairment. The IPR&D impairment test requires the Company to assess the fair value of the asset as compared to its carrying value and record an impairment charge if the carrying value exceeds the fair value. The Company performed its annual impairment test of its IPR&D in the second fiscal quarter of 2012 and recorded $21.4 million in impairment charges within research and development expenses in the consolidated statements of income. Resources previously assigned to the research project were re-directed with no plans for additional investments to be made to the project in the foreseeable future.

The Company regularly performs reviews to determine if any event has occurred that may indicate its intangible assets with finite useful lives and other long-lived assets are potentially impaired. If indicators of impairment exist, the Company performs an impairment test to assess the recoverability of the affected assets by determining whether the carrying amount of such assets exceeds the undiscounted expected future cash flows. If the affected assets are not recoverable, the Company estimates the fair value of the assets and records an impairment loss if the carrying value of the assets exceeds the fair value. Factors that would indicate potential impairment include a significant decline in the Company's stock price and market capitalization compared to its net book value, significant changes in the ability of a particular asset to generate positive cash flows, and significant changes in the Company's strategic business objectives and utilization of a particular asset. The Company performed quarterly reviews of its intangible assets with finite useful lives and other long-lived assets and noted no indications of impairment for the year ended December 30, 2012.

Reserve for Product Warranties

The Company generally provides a one-year warranty on instruments. Additionally, the Company provides a warranty on its consumables through the expiration date, which generally ranges from six to twelve months after the manufacture date. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses based on historical experience as well as anticipated product performance. The Company periodically reviews the adequacy of its warranty reserve and adjusts, if necessary, the warranty accrual based on actual experience and estimated costs to be incurred. Warranty expense is recorded as a component of cost of product revenue.

Revenue Recognition

The Company's revenue is generated primarily from the sale of products and services. Product revenue primarily consists of sales of instrumentation and consumables used in genetic analysis. Service and other revenue primarily consists of revenue received for performing genotyping and sequencing services, instrument service contract sales, and amounts earned under research agreements with government grants, which are recognized in the period during which the related costs are incurred.

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable, and collectibility is reasonably assured. In instances where final acceptance of the product or system is required, revenue is deferred until all the acceptance criteria have been met. All revenue is recorded net of any discounts.

Revenue from product sales is recognized generally upon transfer of title to the customer, provided that no significant obligations remain and collection of the receivable is reasonably assured. Revenue from instrument service contracts is recognized as the services are rendered, typically evenly over the contract term. Revenue from genotyping and sequencing services is recognized when earned, which is generally at the time the genotyping or sequencing analysis data is made available to the customer or agreed upon milestones are reached.

In order to assess whether the price is fixed or determinable, the Company evaluates whether refund rights exist. If there are refund rights or payment terms based on future performance, the Company defers revenue recognition until the price becomes fixed or determinable. The Company assesses collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If the Company determines that collection of a payment is not reasonably assured, revenue recognition is deferred until receipt of payment.

The Company regularly enters into contracts where revenue is derived from multiple deliverables including any mix of products or services. These products or services are generally delivered within a short time frame, approximately three to six months, after the contract execution date. Revenue recognition for contracts with multiple deliverables is based on the individual units of accounting determined to exist in the contract. A delivered item is considered a separate unit of accounting when the delivered item has value to the customer on a stand-alone basis. Items are considered to have stand-alone value when they are sold separately by any vendor or when the customer could resell the item on a stand-alone basis. Consideration is allocated at the inception of the contract to all deliverables based on their relative selling price. The relative selling price for each deliverable is determined using vendor specific objective evidence (VSOE) of selling price or third-party evidence of selling price if VSOE does not exist. If neither VSOE nor third-party evidence exists, the Company uses its best estimate of the selling price for the deliverable.

In order to establish VSOE of selling price, the Company must regularly sell the product or service on a standalone basis with a substantial majority priced within a relatively narrow range. VSOE of selling price is usually the midpoint of that range. If there are not a sufficient number of standalone sales and VSOE of selling price cannot be determined, then the Company considers whether third party evidence can be used to establish selling price. Due to the lack of similar products and services sold by other companies within the industry, the Company has rarely established selling price using third-party evidence. If neither VSOE nor third party evidence of selling price exists, the Company determines its best estimate of selling price using average selling prices over a rolling 12-month period coupled with an assessment of current market conditions. If the product or service has no history of sales or if the sales volume is not sufficient, the Company relies upon prices set by the Company's pricing committee adjusted for applicable discounts. The Company recognizes revenue for delivered elements only when it determines there are no uncertainties regarding customer acceptance.

During the fiscal year ended January 1, 2012, the Company completed its Genome Analyzer trade-in program that enabled certain Genome Analyzer customers to trade in their Genome Analyzer and receive a discount on the purchase of a HiSeq 2000. The incentive was limited to customers who had purchased a Genome Analyzer prior to the beginning of the incentive program in early 2010 and was the only significant trade-in program offered by the Company to date. The Company accounted for HiSeq 2000 discounts related to the Genome Analyzer trade-in program as reductions to revenue upon recognition of the HiSeq 2000 sales revenue, which is later than the date the trade-in program was launched.

In certain markets, the Company sells products and provides services to customers through distributors that specialize in life science products. In most sales through distributors, the product is delivered directly to customers. In cases where the product is delivered to a distributor, revenue recognition is deferred until acceptance is received from the distributor, and/or the end-user, if required by the applicable sales contract. The terms of sales transactions through distributors are consistent with the terms of direct sales to customers. These transactions are accounted for in accordance with the Company's revenue recognition policy described herein.

Shipping and Handling Expenses

Shipping and handling expenses are included in cost of product revenue.

Research and Development

Research and development expenses include personnel expenses, contractor fees, license fees, facilities costs, and utilities. Expenditures relating to research and development are expensed in the period incurred.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were $7.3 million, $6.8 million, and $6.9 million for the years ended December 30, 2012, January 1, 2012, and January 2, 2011, respectively.

Leases

Leases are reviewed and classified as capital or operating at their inception. For leases that contain rent escalations, the Company records rent expense on a straight-line basis over the term of the lease, which includes the construction build-out period and lease extension periods, if appropriate. The difference between rent payments and straight-line rent expense is recorded as deferred rent in accrued liabilities and other long-term liabilities. Landlord allowances are amortized on a straight-

line basis over the lease term as a reduction to rent expense. The Company capitalizes leasehold improvements and amortizes them over the shorter of the lease term or their expected useful lives.

In 2012, the Company completed the relocation of its headquarters to another facility in San Diego, California. Headquarter relocation expenses recorded in years ended December 30, 2012 and January 1, 2012 primarily consisted of accelerated depreciation expense, impairment of assets, additional rent expense during the transition period when both the new and former headquarter facilities are occupied, moving expenses, and cease-use losses. The Company recorded accelerated depreciation expense for leasehold improvements at its former headquarter facility based on the reassessed useful lives of less than a year. The Company recorded cease-use losses and the corresponding facility exit obligation upon vacating certain buildings of its former headquarters, calculated as the present value of the remaining lease obligation offset by estimated sublease rental receipts during the remaining lease period, adjusted for deferred items and estimated lease incentives. The key assumptions used in the calculation include the amount and timing of estimated sublease rental receipts, and the risk-adjusted discount rate.

Restructuring Charges

During the fourth quarter of the year ended January 1, 2012, the Company announced and executed a restructuring plan, to reduce the Company's workforce and to consolidate certain facilities. The Company measured and accrued the liabilities associated with employee separation costs at fair value as of the date the plan was announced and terminations were communicated to employees, which primarily included severance pay and other separation costs such as outplacement services and benefits.

The fair value measurement of restructuring related liabilities requires certain assumptions and estimates to be made by the Company, such as the retention period of certain employees, the timing and amount of sublease income on properties to be vacated, and the operating costs to be paid until lease termination. It is the Company's policy to use the best estimates based on facts and circumstances available at the time of measurement, review the assumptions and estimates periodically, and adjust the liabilities when necessary.

Income Taxes

The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and credit carryforwards. Deferred tax assets and liabilities are determined using the enacted tax rates in effect for the years in which those tax assets are expected to be realized. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the provision for income taxes in the period that includes the enactment date.

Deferred tax assets are regularly assessed to determine the likelihood they will be recovered from future taxable income. A valuation allowance is established when the Company believes it is more likely than not the future realization of all or some of a deferred tax asset will not be achieved. In evaluating the ability to recover deferred tax assets within the jurisdiction which they arise the Company considers all available positive and negative evidence. Factors reviewed include the cumulative pre-tax book income for the past three years, scheduled reversals of deferred tax liabilities, history of earnings and reliable forecasting, projections of pre-tax book income over the foreseeable future, and the impact of any feasible and prudent tax planning strategies.

The Company recognizes excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company.

The Company recognizes the impact of a tax position in the financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense.

Functional Currency

The U.S. dollar is the functional currency of the Company's international operations. The Company remeasures its foreign subsidiaries' assets and liabilities and revenue and expense accounts related to monetary assets and liabilities to the U.S. dollar and records the net gains or losses resulting from remeasurement in other (expense) income, net in the consolidated statements of income. During the years ended December 30, 2012 and January 1, 2012, the Company recorded $2.2 million net gain and $2.0 million net loss from remeasurement, respectively. Gains and losses related to remeasurement were immaterial for the year ended January 2, 2011.

Derivatives

The Company is exposed to foreign exchange rate risks in the normal course of business. To manage a portion of the accounting exposure resulting from changes in foreign currency exchange rates, the Company enters into foreign exchange contracts to hedge monetary assets and liabilities that are denominated in currencies other than the U.S. dollar. These foreign exchange contracts are carried at fair value and are not designated as hedging instruments. Changes in the value of the derivatives are recognized in other (expense) income, net, in the consolidated statements of income in the respective periods, along with an offsetting remeasurement gain or loss on the underlying foreign currency denominated assets or liabilities.

As of December 30, 2012, the Company had foreign exchange forward contracts in place to hedge exposures in the euro, Japanese yen, and Australian dollar. As of December 30, 2012 and January 1, 2012, the total notional amount of outstanding forward contracts in place for foreign currency purchases was $51.2 million and $25.5 million, respectively. Non-designated foreign exchange forward contract related gain was $1.2 million for the year ended December 30, 2012 and immaterial for the years ended January 1, 2012 and January 2, 2011.

Share-Based Compensation

The Company uses the Black-Scholes-Merton option-pricing model to estimate the fair value of stock options granted and stock purchases under the Employee Stock Purchase Plan (ESPP). This model incorporates various assumptions including expected volatility, expected term of an award, expected dividends, and the risk-free interest rates. The Company determines the expected volatility by equally weighing the historical and implied volatility of the Company's common stock. The historical volatility of the Company's common stock over the most recent period is generally commensurate with the estimated expected term of the Company's stock awards, adjusted for the impact of unusual fluctuations not reasonably expected to recur and other relevant factors. The implied volatility is calculated from the implied market volatility of exchange-traded call options on the Company's common stock. The expected term of an award is based on historical forfeiture experience, exercise activity, and on the terms and conditions of the stock awards. The expected dividend yield is determined to be 0% given that the Company has never declared or paid cash dividends on its common stock and does not anticipate paying such cash dividends. The risk-free interest rate is based upon U.S. Treasury securities with remaining terms similar to the expected term of the share-based awards. The fair value of restricted stock units granted is based on the market price of the Company's common stock on the date of grant. The Company recognizes the fair value of share-based compensation on a straight-line basis over the requisite service periods of the awards.

Net Income per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the reporting period increased to include dilutive potential common shares calculated using the treasury stock method. Diluted net income per share reflects the potential dilution from outstanding stock options, restricted stock units, ESPP, warrants, shares subject to forfeiture, and convertible senior notes. Under the treasury stock method, convertible senior notes will have a dilutive impact when the average market price of the Company's common stock is above the applicable conversion price of the respective notes. In addition, the following amounts are assumed to be used to repurchase shares: the amount that must be paid to exercise stock options and warrants and purchase shares under the ESPP; the average amount of compensation expense for future services that the Company has not yet recognized for stock options, restricted stock units, ESPP, and shares subject to forfeiture; and the amount of tax benefits that will be recorded in additional paid-in capital when the expenses related to respective awards become deductible.

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table presents the calculation of weighted average shares used to calculate basic and diluted net income per share (in thousands):

	Years Ended		
	December 30, 2012	January 1, 2012	January 2, 2011
Weighted average shares outstanding	122,999	123,399	123,581
Effect of dilutive potential common shares from:			
Convertible senior notes	967	3,783	9,058
Equity awards	3,906	4,703	4,674
Warrants sold in connection with convertible senior notes	5,821	7,052	5,317
Warrants assumed in a prior acquisition	—	—	803
Weighted average shares used in calculating diluted net income per share	133,693	138,937	143,433
Potentially dilutive shares excluded from calculation due to anti-dilutive effect	2,556	2,418	1,934

Accumulated Other Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income. Accumulated other comprehensive income on the consolidated balance sheets at December 30, 2012 and January 1, 2012 includes accumulated foreign currency translation adjustments and unrealized gains and losses on the Company's available-for-sale securities.

The components of accumulated other comprehensive income are as follows (in thousands):

	December 30, 2012	January 1, 2012
Foreign currency translation adjustments	$ 1,289	$ 1,289
Unrealized gain on available-for-sale securities, net of deferred tax	834	828
Total accumulated other comprehensive income	$ 2,123	$ 2,117

2. Balance Sheet Account Details

Investments

The following is a summary of short-term investments (in thousands):

	December 30, 2012				January 1, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:								
Debt securities in government-sponsored entities	$ 314,638	$ 251	$ (16)	$ 314,873	$ 393,759	$ 428	$ (148)	$ 394,039
Corporate debt securities	471,989	1,059	(187)	472,861	432,550	1,293	(461)	433,382
U.S. treasury securities	128,256	233	—	128,489	58,955	214	—	59,169
Total available-for-sale securities	$ 914,883	$ 1,543	$ (203)	$ 916,223	$ 885,264	$ 1,935	$ (609)	$ 886,590

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Available For Sale Securities

As of December 30, 2012 the Company had 5 9 available-for-sale securities in a gross unrealized loss position, all of which had been in such position for less than twelve months. There were no impairments considered other-than-temporary as it is more likely than not the Company will hold the securities until maturity or a recovery of the cost basis. The following table shows the fair values and the gross unrealized losses of the Company's available-for- sale securities that were in an unrealized loss position as of December 30, 2012 and January 1, 2012 aggregated by investment category (in thousands):

	December 30, 2012		January 1, 2012	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Debt securities in government-sponsored entities	$ 28,176	$ (16)	$ 133,904	$ (148)
Corporate debt securities	130,224	(187)	138,326	(461)
Total	$ 158,400	$ (203)	$ 272,230	$ (609)

Realized gains and losses are determined based on the specific identification method and are reported in interest income in the consolidated statements of income. Gross realized gains on sales of available-for-sale securities for the years ended December 30, 2012, January 1, 2012, and January 2, 2011 were $1.6 million, $1.4 million, and $1.7 million, respectively. Gross realized losses on sales of available-for-sale securities for the years ended December 30, 2012, January 1, 2012, and January 2, 2011 were immaterial.

Contractual maturities of available-for-sale debt securities as of December 30, 2012 were as follows (in thousands):

	Estimated Fair Value
Due within one year	$ 328,991
After one but within five years	587,232
Total	$ 916,223

Cost-Method Investments

As of December 30, 2012 and January 1, 2012, the aggregate carrying amounts of the Company's cost-method investments in non-publicly traded companies were $56.3 million and $45.3 million, respectively. The Company's cost-method investments are assessed for impairment quarterly. The Company does not estimate the fair value of cost-method investments if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investments. The Company includes cost-method investments in other long term assets in the consolidated balance sheets.

During the fourth quarter of 2012, the Company sold its minority ownership interest in deCODE Genetics, Inc., an Icelandic company that focuses on the genetic studies of human disease, to Amgen Inc., a biotechnology medicines company based in the U.S. Gross proceeds received were $50.8 million, resulting in a gain of $48.6 million. Also during the fourth quarter of 2012, the Company received $6.0 million from an investee in principal payment of a loan that was previously impaired, and recorded the recovered funds in interest income in the consolidated statements of income.

As a result of its impairment analysis performed in the fourth quarter of 2012, the Company determined that a cost-method investment was other-than-temporarily impaired and recorded an impairment loss of $2.7 million. This determination was based upon operational performance trends coupled with uncertainty regarding the entity's ability to obtain additional funding in a required timeframe for the entity to continue operations.

No impairment losses were recorded during the year ended January 1, 2012. In the year ended January 2, 2011, the Company determined that a $6.0 million cost-method investment and a related $6.8 million note receivable with interest receivable of $0.4 million were below carrying value and the impairment was other-than-temporary. As a result, the Company recorded an impairment charge of $13.2 million in cost-method investment gain (loss), net in the consolidated statements of income for the year ended January 2, 2011.

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Accounts Receivable

Accounts receivable consist of the following (in thousands):

	December 30, 2012	January 1, 2012
Accounts receivable from product and service sales	$ 217,369	$ 175,226
Other receivables	1,886	2,657
Total accounts receivable, gross	219,255	177,883
Allowance for doubtful accounts	(4,280)	(3,997)
Total accounts receivable, net	$ 214,975	$ 173,886

Inventory

Inventory consists of the following (in thousands):

	December 30, 2012	January 1, 2012
Raw materials	$ 61,665	$ 58,340
Work in process	75,675	53,412
Finished goods	21,378	17,029
Total inventory	$ 158,718	$ 128,781

Property and Equipment

Property and equipment, net consists of the following (in thousands):

	December 30, 2012	January 1, 2012
Leasehold improvements	$ 87,734	$ 63,406
Machinery and equipment	158,112	143,816
Computer hardware and software	58,313	54,826
Furniture and fixtures	8,022	8,095
Construction in progress	7,390	10,022
Total property and equipment, gross	319,571	280,165
Accumulated depreciation	(153,404)	(136,682)
Total property and equipment, net	$ 166,167	$ 143,483

Depreciation expense was $48.2 million, $55.6 million and $34.2 million for the years ended December 30, 2012, January 1, 2012, and January 2, 2011, respectively. Capital expenditures included accrued expenditures of $1.6 million, $5.9 million, and $1.8 million in the years ended December 30, 2012, January 1, 2012, and January 2, 2011, respectively. These amounts have been excluded from the Consolidated Statements of Cash Flows for the respective periods.

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	December 30, 2012	January 1, 2012
Accrued compensation expenses	$ 59,864	$ 52,035
Deferred revenue, current portion	55,817	52,573
Accrued taxes payable	23,021	19,339
Customer deposits	13,765	17,958
Reserve for product warranties	10,136	11,966
Acquisition related contingent consideration liability, current portion	9,490	2,335
Unsettled short-term investment purchase	9,154	—
Facility exit obligation, current portion	8,063	4,408
Accrued royalties	2,836	5,682
Other accrued expenses	9,731	10,819
Total accrued liabilities	$ 201,877	$ 177,115

3. Restructuring Activities

In late 2011, the Company implemented a cost reduction initiative that included workforce reductions and the consolidation of certain facilities. In total, the Company notified approximately 200 employees of their involuntary termination.

A summary of the pre-tax charges and estimated total costs associated with the initiative is as follows (in thousands):

	Employee Separation costs	Facilities Exit Costs	Other Costs	Total
Amount recorded in accrued liabilities as of January 1, 2012	$ 3,496	$ —	$ 30	$ 3,526
Additional expenses	2,780	221	521	3,522
Cash payments	(6,276)	(221)	(551)	(7,048)
Amount recorded in accrued liabilities as of December 30, 2012	$ —	$ —	$ —	$ —
Cumulative expense recorded since inception in restructuring expense	$ 10,463	$ 221	$ 974	$ 11,658
Estimated total restructuring costs to be incurred	$ 10,463	$ 221	$ 974	$ 11,658

4. Acquisitions

BlueGnome

On September 19, 2012, the Company announced the acquisition of BlueGnome Ltd. (BlueGnome), a provider of cytogenetics and in vitro fertilization screening products. Total consideration for the acquisition was $95.5 million, which included $88.0 million in initial cash payments and $7.5 million in fair value of contingent cash consideration of up to $20.0 million based on the achievement of certain revenue based milestones by December 28, 2014.

The Company estimated the fair value of contingent cash consideration using a probability weighted discounted cash flow approach, a Level 3 measurement based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value. The Company used a discount rate of 30% in the assessment of the acquisition date fair value for the contingent cash consideration. Future changes in significant inputs such as the discount rate and estimated probabilities of milestone achievements could have a significant effect on the fair value of the contingent consideration.

In conjunction with the purchase transaction, the Company also agreed to pay up to $20.0 million to BlueGnome shareholders contingent upon the retention of certain key employees and certain other criteria. Such contingent payments are recognized as contingent compensation expense over the retention period through December 28, 2014.

The Company allocated approximately $11.2 million of the total consideration to tangible assets, net of liabilities, and $48.9 million to identified intangible assets, including additional developed technologies of $25.0 million, customer relationships of $16.8 million, and a trade name of $7.1 million with average useful lives of seven, five, and ten years, respectively. The Company also recorded a $12.1 million deferred tax liability to reflect the tax impact of certain identified intangible assets, the amortization expenses for which are not tax deductible. The Company recorded the excess consideration of approximately $47.5 million as goodwill.

Prior Acquisitions

On January 10, 2011, the Company acquired Epicentre Technologies Corporation (Epicentre), a provider of nucleic acid sample preparation reagents and specialty enzymes used in sequencing and microarray applications. Total consideration for the acquisition was $71.4 million, which included $59.4 million in net cash payments, $4.6 million in the fair value of contingent consideration settled in stock that is subject to forfeiture if certain non-revenue based milestones are not met, and $7.4 million in the fair value of contingent cash consideration of up to $15.0 million based on the achievement of certain revenue based milestones by January 10, 2013.

The Company estimated the fair value of contingent stock consideration based on the closing price of its common stock as of the acquisition date. Approximately 229,000 shares of common stock were issued to Epicentre shareholders in connection with the acquisition, which shares are subject to forfeiture if certain non-revenue-based milestones are not met. One third of these shares issued with an assessed fair value of $4.6 million were determined to be part of the purchase price. The remaining shares with an assessed fair value of $10.1 million were determined to be compensation for post-acquisition service, the cost of which will be recognized as contingent compensation expense over a period of two years in research and development expense and selling, general and administrative expense.

The Company estimated the fair value of contingent cash consideration using a probability weighted discounted cash flow approach, a Level 3 measurement based on unobservable inputs that are supported by little or no market activity and reflects the Company's own assumptions in measuring fair value. The Company used a discount rate of 21% in the assessment of the acquisition date fair value for the contingent cash consideration.

The Company allocated $0.9 million of the total consideration to tangible assets, net of liabilities, and $26.9 million to identified intangible assets, including additional developed technologies of $23.3 million, a trade name of $2.5 million, and customer relationships of $1.1 million, with weighted average useful lives of approximately nine, ten, and three years, respectively. The Company recorded the excess consideration of $43.6 million as goodwill.

On July 28, 2010, the Company completed an acquisition of another privately-held, development stage entity. Total consideration for the acquisition was $22.0 million. As a result of this transaction, the Company recorded an IPR&D asset of $21.4 million in intangible assets. In determining the fair value of the IPR&D, various factors were considered, such as future revenue contributions, additional research and development costs to be incurred, and contributory asset charges. The fair value of the IPR&D was calculated using an income approach, and the rate used to discount net future cash flows to their present values was based on a risk-adjusted rate of return of approximately 28%. Significant factors considered in the calculation of the rate of return include the weighted average cost of capital, the weighted average return on assets, the internal rate of return, as well as the risks inherent in the development process for development-stage entities of similar sizes.

On April 30, 2010, the Company completed the acquisition of Helixis, Inc. (Helixis), a company developing a high-performance, low-cost, real time PCR system used for nucleic acid analysis. Total consideration for the acquisition was $86.7 million, including $70.0 million in net cash payments and $14.1 million for the fair value of contingent consideration payments that could range from $0 to $35 million based on the achievement of certain revenue-based milestones by December 31, 2011. The Company allocated $2.3 million of the consideration to tangible assets, net of liabilities, and $28.0 million to identified intangible assets that will be amortized over a useful life of ten years. The Company also recorded a $10.7 million deferred tax liability to reflect the tax impact of the identified intangible assets, the amortization expenses for which are not tax deductible and an $8.7 million deferred tax asset which primarily relates to acquired net operating loss carryforwards. The Company recorded the excess consideration of $58.4 million as goodwill.

Prior to the acquisition, the Company had an equity interest in Helixis with a cost basis of $2.0 million that was accounted for under the cost-method of accounting. The Company recognized a gain of $2.9 million, which was included in other (expense) income, net, in its consolidated statement of income as a result of revaluing the Company's equity interest in Helixis on the acquisition date.

In addition, the Company agreed to pay the former shareholders of another development stage company acquired in 2008 a certain amount of contingent cash consideration based on the achievement of certain product-related and employment-related milestones. In accordance with the applicable accounting guidance effective at the time, such consideration was accounted for as additional elements of the cost of acquisition, resulting in additional IPR&D charges in the years ended January 1, 2012 and January 2, 2011 when the contingencies were resolved beyond a reasonable doubt and the considerations were issued or became issuable.

Summary of Contingent Compensation Expenses and IPR&D Charges

Contingent compensation expenses and IPR&D charges as a result of acquisitions consist of the following (in thousands):

	Years Ended		
	December 30, 2012	January 1, 2012	January 2, 2011
Contingent compensation expense, included in research and development expense	$ 3,419	$ 4,799	$ 3,675
Contingent compensation expense, included in selling, general and administrative expense	5,732	1,258	—
Total contingent compensation expense	$ 9,151	$ 6,057	$ 3,675
IPR&D, included in acquisition related expense (gain), net	$ —	$ 5,425	$ 1,325

5. Intangible Assets

The Company's intangible assets, excluding goodwill, include acquired core and licensed technologies, license agreements, trade name, and customer relationships. Amortization for the intangible assets that have finite useful lives is generally recorded on a straight-line basis over their useful lives.

The following is a summary of the Company's identifiable intangible assets as of the respective balance sheet dates (in thousands):

	December 30, 2012				January 1, 2012			
	Weighted Average Useful Life (years)	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net	Weighted Average Useful Life (years)	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net
Intangible assets with finite useful lives:								
Licensed technologies	6.6	$ 46,904	$ (25,271)	$ 21,633	8.0	$ 36,000	$ (20,000)	$ 16,000
Core technologies	8.8	99,800	(27,427)	72,373	9.7	74,800	(18,544)	56,256
Customer relationships	5.0	18,780	(2,214)	16,566	3.0	1,980	(1,253)	727
License agreements	7.8	14,829	(4,133)	10,696	8.9	12,404	(2,605)	9,799
Trade name	10.0	9,600	(672)	8,928	10.0	2,500	(245)	2,255
Indefinitely-lived Intangible Asset:								
In-process research & development		—	—	—		21,438	—	21,438
Total intangible assets, net		$ 189,913	$ (59,717)	$ 130,196		$ 149,122	$ (42,647)	$ 106,475

Additions to intangible assets in the current year are primarily due to the BlueGnome acquisition and technology license agreements entered into during the year. As discussed in note "1. Organization and Summary of Significant Accounting Policies," IPR&D was impaired during the year ended December 30, 2012. Amortization expense associated with intangible assets was $17.1 million for the year ended December 30, 2012, $15.5 million of which related to acquired intangible assets.

Amortization expense associated with intangible assets for the years ended January 1, 2012 and January 2, 2011 were $13.6 million and $7.8 million, respectively.

The estimated annual amortization of intangible assets for the next five years is shown in the following table (in thousands). Actual amortization expense to be reported in future periods could differ from these estimates as a result of acquisitions, divestitures, asset impairments, among other factors.

2013	$ 24,644
2014	23,860
2015	23,414
2016	18,715
2017	14,612
Thereafter	24,951
Total	$ 130,196

6. Fair Value Measurements

The following table presents the Company's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis as of December 30, 2012 and January 1, 2012 respectively (in thousands):

	December 30, 2012				January 1, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Money market funds (cash equivalent)	$ 252,126	$ —	$ —	$ 252,126	$ 166,898	$ —	$ —	$ 166,898
Debt securities in government-sponsored entities	—	314,873	—	314,873	—	394,039	—	394,039
Corporate debt securities	—	472,861	—	472,861	—	433,382	—	433,382
U.S. Treasury securities	128,489	—	—	128,489	59,169	—	—	59,169
Deferred compensation plan assets	—	13,626	—	13,626	—	10,800	—	10,800
Total assets measured at fair value	$ 380,615	$ 801,360	$ —	$ 1,181,975	$ 226,067	$ 838,221	$ —	$ 1,064,288
Liabilities:								
Acquisition related contingent consideration liabilities	$ —	$ —	$ 12,519	$ 12,519	$ —	$ —	$ 6,638	$ 6,638
Deferred compensation liability	—	12,071	—	12,071	—	8,970	—	8,970
Total liabilities measured at fair value	$ —	$ 12,071	$ 12,519	$ 24,590	$ —	$ 8,970	$ 6,638	$ 15,608

The Company holds available-for-sale securities that consist of highly liquid, investment grade debt securities. The Company determines the fair value of its debt security holdings based on pricing from a service provider. The service provider values the securities based on "consensus pricing," using market prices from a variety of industry-standard independent data providers. Such market prices may be quoted prices in active markets for identical assets or liabilities (Level 1 inputs) or pricing determined using inputs that are observable either directly or indirectly (Level 2 inputs), such as quoted prices for similar assets or liabilities, yield curve, volatility factors, credit spreads, default rates, loss severity, current market and contractual prices for the underlying instruments or debt, broker and dealer quotes, as well as other relevant economic measures. The Company's deferred compensation plan assets consist primarily of mutual funds. See note "14. Employee Benefit Plans" for additional information about our deferred compensation plan. The Company performs certain procedures to corroborate the fair value of its holdings, including comparing prices obtained from service providers to prices obtained from other reliable sources.

The Company reassesses the fair value of contingent consideration to be settled in cash related to acquisitions on a quarterly basis using the income approach. This is a Level 3 measurement. Significant assumptions used in the measurement include probabilities of achieving the remaining milestones and the discount rates, which depend on the milestone risk profiles. Due to changes in the estimated payments and a shorter discounting period, the fair value of the contingent consideration

liabilities changed, resulting in a $2.0 million expense recorded in acquisition related expense (gain), net in the consolidated statements of income during the year ended December 30, 2012.

Changes in estimated fair value of contingent consideration liabilities from January 3, 2010 through December 30, 2012 are as follows (in thousands):

	Contingent Consideration Liability (Level 3 Measurement)
Balance as of January 3, 2010	$
Acquisition of Helixis	14,114
Gain recorded in acquisition related expense (gain), net	(10,376)
Balance as of January 2, 2011	$ 3,738
Acquisition of Epicentre	7,400
Gain recorded in acquisition related expense (gain), net	(4,500)
Balance as of January 1, 2012	$ 6,638
Acquisition of BlueGnome	7,500
Expense recorded in acquisition related expense (gain), net	1,975
Cash payments	(3,594)
Balance as of December 30, 2012	$ 12,519

7. Convertible Senior Notes

0.25% Convertible Senior Notes due 2016

In 2011, the Company issued $920.0 million aggregate principal amount of 0.25% convertible senior notes due 2016 (2016 Notes) in an offering conducted in accordance with Rule 144A under the Securities Act of 1933, as amended. The 2016 Notes were issued at 98.25% of par value. Debt issuance costs of approximately $0.4 million were primarily comprised of legal, accounting, and other professional fees, the majority of which were recorded in other noncurrent assets and are being amortized to interest expense over the five-year term of the 2016 Notes.

The 2016 Notes will be convertible into cash, shares of common stock, or a combination of cash and shares of common stock, at the Company's election, based on an initial conversion rate, subject to adjustment, of 11.9687 shares per $1,000 principal amount of the 2016 Notes (which represents an initial conversion price of approximately $83.55 per share), only in the following circumstances and to the following extent: (1) during the five business-day period after any 10 consecutive trading day period (the "measurement period") in which the trading price per 2016 Note for each day of such measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such day; (2) during any calendar quarter (and only during that quarter) after the calendar quarter ending March 31, 2011, if the last reported sale price of the Company's common stock for 20 or more trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; (3) upon the occurrence of specified events described in the indenture for the 2016 Notes; and (4) at any time on or after December 15, 2015 through the second scheduled trading day immediately preceding the maturity date.

As noted in the indenture for the 2016 Notes, it is the Company's intent and policy to settle conversions through combination settlement, which essentially involves repayment of an amount of cash equal to the "principal portion" and delivery of the "share amount" in excess of the conversion value over the principal portion in shares of common stock. In general, for each $1,000 in principal, the "principal portion" of cash upon settlement is defined as the lesser of $1,000, and the conversion value during the 20-day observation period as described in the indenture for the 2016 Notes. The conversion value is the sum of the daily conversion value which is the product of the effective conversion rate divided by 20 days and the daily volume weighted average price ("VWAP") of the Company's common stock. The "share amount" is the cumulative "daily share amount" during the observation period, which is calculated by dividing the daily VWAP into the difference between the daily conversion value (i.e., conversion rate x daily VWAP) and $1,000.

The Company pays 0.25% interest per annum on the principal amount of the 2016 Notes semiannually in arrears in cash on March 15 and September 15 of each year. The Company paid $2.3 million in interest payments during the year ended December 30, 2012. The 2016 Notes mature on March 15, 2016. If a designated event, as defined in the indenture for the 2016 Notes, such as an acquisition, merger, or liquidation, occurs prior to the maturity date, subject to certain limitations, holders of the 2016 Notes may require the Company to repurchase all or a portion of their 2016 Notes for cash at a repurchase price equal to 100% of the principal amount of the 2016 Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the repurchase date.

The Company accounts separately for the liability and equity components of the 2016 Notes in accordance with authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. The guidance requires the carrying amount of the liability component to be estimated by measuring the fair value of a similar liability that does not have an associated conversion feature. Because the Company has no outstanding non-convertible public debt, the Company determined that senior, unsecured corporate bonds traded on the market represent a similar liability to the convertible senior notes without the conversion option. Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, the Company estimated the implied interest rate of its 2016 Notes to be 4.5%, assuming no conversion option. Assumptions used in the estimate represent what market participants would use in pricing the liability component, including market interest rates, credit standing, and yield curves, all of which are defined as Level 2 observable inputs. The estimated implied interest rate was applied to the 2016 Notes, which resulted in a fair value of the liability component of $748.5 million upon issuance, calculated as the present value of implied future payments based on the $920.0 million aggregate principal amount. The $155.4 million difference between the cash proceeds of $903.9 million and the estimated fair value of the liability component was recorded in additional paid-in capital as the 2016 Notes are not considered currently redeemable at the balance sheet date.

If the 2016 Notes were converted as of December 30, 2012, the if-converted value would not exceed the principal amount. As a policy election under applicable guidance related to the calculation of diluted net income per share, the Company elected the combination settlement method as its stated settlement policy and applied the treasury stock method. The 2016 Notes had an anti-dilutive effect for the years ended December 30, 2012 and January 1, 2012.

0.625% Convertible Senior Notes due 2014

In 2007, the Company issued $400.0 million principal amount of 0.625% convertible senior notes due 2014 (2014 Notes). The Company pays 0.625% interest per annum on the principal amount of the 2014 Notes, payable semi-annually in arrears in cash on February 15 and August 15 of each year. The 2014 Notes mature on February 15, 2014. The effective interest rate of the liability component was estimated to be 8.3%.

The Company entered into hedge transactions concurrently with the issuance of the 2014 Notes under which the Company is entitled to purchase up to approximately 18,322,000 shares of the Company's common stock at a strike price of approximately $21.83 per share, subject to adjustment. The convertible note hedge transactions had the effect of reducing dilution to the Company's stockholders upon conversion of the 2014 Notes. Also concurrently with the issuance of the 2014 Notes, the Company sold to the hedge counterparties warrants exercisable, on a cashless basis, for up to approximately 18,322,000 shares of the Company's common stock at a strike price of $31.435 per share, subject to adjustment. The proceeds from these warrants partially offset the cost to the Company of the convertible note hedge transactions.

The 2014 Notes became convertible into cash and shares of the Company's common stock in various prior periods and became convertible again from April 1, 2012 through, and including, December 30, 2012. There were no conversions of the 2014 Notes during the year ended December 30, 2012. During the year ended January 1, 2012, the principal amount of all 2014 Notes converted was repaid with cash and the excess of the conversion value over the principal amount was paid in shares of common stock. The equity dilution resulting from the issuance of common stock related to the conversion of the 2014 Notes was offset by repurchase of the same amount of shares under the convertible note hedge transactions, which were automatically exercised in accordance with their terms at the time of each such conversion. The balance of the convertible note hedge transactions with respect to approximately $40.1 million principal amount of the 2014 Notes (which are convertible into up to 1,838,000 shares of the Company's common stock) remained in place as of December 30, 2012. The warrants were not affected by the early conversions of the 2014 Notes and, as a result, warrants covering up to approximately 18,322,000 shares of common stock remained outstanding as of December 30, 2012.

As a result of the conversions during the year ended January 1, 2012, the Company recorded losses on extinguishment of debt calculated as the difference between the estimated fair value of the debt and the carrying value of the notes as of the settlement dates. To measure the fair value of the converted notes as of the settlement dates, the applicable interest rates were estimated using Level 2 observable inputs and applied to the converted notes using the same methodology as in the issuance date valuation. If the 2014 Notes were converted as of December 30, 2012, the if-converted value would exceed the principal amount by $60.0 million.

The following table summarizes information about the equity and liability components of the 2014 and 2016 Notes (dollars in thousands). The fair values of the respective notes outstanding were measured based on quoted market prices.

	December 30, 2012		January 1, 2012	
	2016 Notes	2014 Notes	2016 Notes	2014 Notes
Principal amount of convertible notes outstanding	$ 920,000	$ 40,125	$ 920,000	$ 40,125
Unamortized discount of liability component	(114,594)	(3,158)	(147,034)	(5,722)
Net carrying amount of liability component	805,406	36,967	772,966	34,403
Less: current portion	—	(36,967)	—	—
Long-term debt	$ 805,406	$ —	$ 772,966	$ 34,403
Conversion option subject to cash settlement	$ —	$ 3,158	$ —	$ 5,722
Carrying value of equity component, net of issuance costs	$ 155,366	$ 111,470	$ 155,366	$ 114,035
Fair value of outstanding notes	$ 892,446	$ 101,470	$ 725,632	$ 60,122
Remaining amortization period of discount on the liability component	3.2 years	1.1 years	4.2 years	2.1 years

Contractual coupon interest expense and accretion of discount on the liability component recorded for the convertible senior notes were as follows (in thousands):

	Years Ended		
	December 30, 2012	January 1, 2012	January 2, 2011
Contractual coupon interest expense	$ 2,472	$ 2,285	$ 2,390
Accretion of discount on the liability component	$ 35,004	$ 32,173	$ 21,407

8. Commitments

Operating Leases

The Company leases office and manufacturing facilities under various noncancellable operating lease agreements. Facility leases generally provide for periodic rent increases, and many contain escalation clauses and renewal options. Certain leases require the Company to pay property taxes and routine maintenance. The Company is headquartered in San Diego, California and leases facilities in San Diego, California; Hayward, California; Fairfax, Virginia; Madison, Wisconsin; the United Kingdom; the Netherlands; Japan; Singapore; Australia; Brazil; Canada; and China.

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Annual future minimum payments under these operating leases as of December 30, 2012 were as follows (in thousands):

2013	$	27,676
2014		23,970
2015		23,197
2016		23,416
2017		23,860
Thereafter		393,088
Total	$	515,207

Rent expenses were $21.4 million, $17.4 million, and $14.7 million for the years ended December 30, 2012, January 1, 2012, and January 2, 2011, respectively.

The Company recorded facility exit obligations upon vacating its former headquarters during the years ended December 30, 2012 and January 1, 2012. Changes in the facility exit obligation from January 1, 2012 through December 30, 2012 are as follows (in thousands):

Balance as of January 1, 2012:	$	25,049
Additional facility exit obligation recorded		24,878
Accretion of interest expense		2,129
Cash payments		(6,704)
Balance as of December 30, 2012	$	45,352

Warranties

Changes in the Company's reserve for product warranties from January 3, 2010 through December 30, 2012 are as follows (in thousands):

Balance as of January 3, 2010	$	10,215
Additions charged to cost of revenue		25,146
Repairs and replacements		(18,600)
Balance as of January 2, 2011		16,761
Additions charged to cost of revenue		17,913
Repairs and replacements		(22,708)
Balance as of January 1, 2012		11,966
Additions charged to cost of revenue		17,279
Repairs and replacements		(19,109)
Balance as of December 30, 2012	$	10,136

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9. Share-based Compensation Expense

Total share-based compensation expense for all stock awards consists of the following (in thousands):

	Years Ended		
	December 30, 2012	January 1, 2012	January 2, 2011
Cost of product revenue	$ 7,575	$ 6,951	$ 5,378
Cost of service and other revenue	461	695	470
Research and development	30,879	32,105	25,428
Selling, general and administrative	55,409	52,341	40,369
Share-based compensation expense before taxes	94,324	92,092	71,645
Related income tax benefits	(30,759)	(32,168)	(25,231)
Share-based compensation expense, net of taxes	$ 63,565	$ 59,924	$ 46,414

The assumptions used for the specified reporting periods and the resulting estimates of weighted-average fair value per share of options granted and for stock purchased under the ESPP during those periods are as follows:

	Years Ended		
	December 30, 2012	January 1, 2012	January 2, 2011
Stock options granted:			
Risk-free interest rate	0.56 - 0.93%	0.85 - 2.23%	2.05 - 2.73%
Expected volatility	41 - 48%	41 - 53%	46 - 48%
Expected term	4.0 - 6.6 years	4.7 - 5.5 years	6.0 years
Expected dividends	—	—	—
Weighted average fair value per share	$ 15.47	$ 27.47	$ 18.82
Stock purchased under the ESPP:			
Risk-free interest rate	0.09 - 0.17%	0.16 - 0.30%	0.17 - 0.48%
Expected volatility	33 - 64%	43 - 48%	46 - 48%
Expected term	0.5 - 1.0 year	0.5 - 1.0 year	0.5 - 1.0 year
Expected dividends	—	—	—
Weighted average fair value per share	$ 16.45	$ 20.08	$ 11.10

As of December 30, 2012, approximately $177.8 million of total unrecognized compensation cost related to stock options, restricted stock units, and ESPP shares issued to date is expected to be recognized over a weighted-average period of approximately 2.3 years.

10. Stockholders' Equity

The Company's 2005 Stock and Incentive Plan (the 2005 Stock Plan), 2005 Solexa Equity Incentive Plan (the 2005 Solexa Equity Plan), and the New Hire Stock and Incentive Plan allow for the issuance of stock options, restricted stock units and awards, and performance stock units. As of December 30, 2012, approximately 3,065,000 shares remained available for future grants under the 2005 Stock Plan and the 2005 Solexa Equity Plan. There is no set number of shares reserved for issuance under the New Hire Stock and Incentive Plan.

Stock Options

Stock options granted at the time of hire primarily vest over a four or five-year period, with 20% or 25% of options vesting on the first anniversary of the grant date and the remaining options vesting monthly over the remaining vesting period. Stock options granted subsequent to hiring primarily vest monthly over a four or five-year period. Each grant of options has a

maximum term of ten years, measured from the applicable grant date, subject to earlier termination if the optionee's service ceases. Vesting in all cases is subject to the individual's continued service through the vesting date. The Company satisfies option exercises through the issuance of new shares.

The Company's stock option activity under all stock option plans from January 3, 2010 through December 30, 2012 is as follows:

	Options (in thousands)	Weighted-Average Exercise Price
Outstanding at January 3, 2010	16,089	$ 18.59
Granted	2,045	39.11
Exercised	(5,541)	16.65
Cancelled	(711)	21.76
Outstanding at January 2, 2011	11,882	22.83
Granted	1,399	64.98
Exercised	(2,784)	17.98
Cancelled	(119)	33.49
Outstanding at January 1, 2012	10,378	29.69
Granted	251	40.79
Exercised	(2,071)	20.34
Cancelled	(207)	39.18
Outstanding at December 30, 2012	8,351	$ 32.10

At December 30, 2012, outstanding options to purchase approximately 6,725,000 shares were exercisable with a weighted average per share exercise price of $28.49. The weighted average remaining life of options outstanding and exercisable is 5.5 years and 5.0 years, respectively, as of December 30, 2012.

The aggregate intrinsic value of options outstanding and options exercisable as of December 30, 2012 was $207.0 million and $185.9 million, respectively. Aggregate intrinsic value represents the product of the number of options outstanding multiplied by the difference between the Company's closing stock price per share on the last trading day of the fiscal period, which was $54.75 as of December 28, 2012, and the exercise price. Total intrinsic value of options exercised was $60.6 million, $136.5 million, and $156.9 million for the years ended December 30, 2012, January 1, 2012, and January 2, 2011, respectively. Total fair value of options vested was $31.9 million, $49.5 million, and $47.3 million for the years ended December 30, 2012, January 1, 2012, and January 2, 2011, respectively.

Restricted Stock

The Company issues restricted stock units (RSUs) and restricted stock awards (RSAs). The Company grants RSUs pursuant to its 2005 Stock and Incentive Plan. RSUs are share awards that, upon vesting, will deliver to the holder shares of the Company's common stock. For grants to new hires prior to July 2011 and for grants to existing employees, RSUs generally vest 15% on the first anniversary of the grant date, 20% on the second anniversary of the grant date, 30% on the third anniversary of the grant date, and 35% on the fourth anniversary of the grant date. For grants to new hires subsequent to July 2011, RSUs generally vest over a four-year period with equal vesting on anniversaries of the grant date. The Company satisfies RSU vesting through the issuance of new shares. The Company also issues RSAs that are released based on service related vesting conditions. RSAs may be issued from the Company's treasury stock or granted pursuant to the Company's 2005 Stock and Incentive Plan.

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A summary of the Company's restricted stock activity and related information from January 3, 2010 through December 30, 2012 is as follows:

	Restricted Stock (in thousands)	Weighted Average Grant-Date Fair Value per Share
Outstanding at January 3, 2010	2,509	$ 32.45
Awarded	1,353	50.74
Vested	(510)	32.10
Cancelled	(243)	33.36
Outstanding at January 2, 2011	3,109	40.39
Awarded	1,780	45.10
Vested	(827)	36.47
Cancelled	(356)	42.15
Outstanding at January 1, 2012	3,706	43.36
Awarded	1,952	48.42
Vested	(1,139)	40.33
Cancelled	(394)	45.05
Outstanding at December 30, 2012	4,125	$ 46.43

Based on the closing price per share of the Company's common stock of $54.75 and $30.48 on December 28, 2012 and December 30, 2011, respectively, the total pre-tax intrinsic value of all outstanding restricted stock as of December 30, 2012 and January 1, 2012 was $225.8 million and $112.9 million, respectively. Total fair value of restricted stock vested was $45.9 million, $30.2 million, and $16.4 million for the years ended December 30, 2012, January 1, 2012, and January 2, 2011, respectively.

Performance Stock Units

In March 2012, the Company's Compensation Committee of the Company's Board of Directors approved changes to the Company's long-term equity incentive program for executive officers and approved the issuance of certain performance stock units at the end of a three-year performance period. The number of shares issuable will range from 50% and 150% of the shares approved in the award based on the Company's performance relative to specified earnings per share targets at the end of the three-year performance period. A total of 587,000 shares were outstanding as of December 30, 2012 with a weighted-average grant-date fair value of $49.64, which represents the fair market value of one share of the Company's common stock on the grant date.

Employee Stock Purchase Plan

A total of 15,467,000 shares of the Company's common stock have been reserved for issuance under its 2000 Employee Stock Purchase Plan, or ESPP. The ESPP permits eligible employees to purchase common stock at a discount, but only through payroll deductions, during defined offering periods. The price at which stock is purchased under the ESPP is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. The initial offering period commenced in July 2000.

The ESPP provides for annual increases of shares available for issuance by the lesser of 3% of the number of outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year, 3,000,000 shares, or such lesser amount as determined by the Company's board of directors. Shares totaling approximately 328,000, 328,000, and 373,000 were issued under the ESPP during the years ended December 30, 2012, January 1, 2012, and January 2, 2011, respectively. As of December 30, 2012 and January 1, 2012, there were approximately 15,406,000 shares and 15,734,000 shares available for issuance under the ESPP, respectively.

Warrants

As of December 30, 2012, warrants exercisable, on a cashless basis, for up to approximately 18,322,000 shares of common stock were outstanding with an exercise price of $31.435. These warrants were sold to counterparties to the Company's convertible note hedge transactions in connection with the offering of the Company's 2014 Notes, with the proceeds of such warrants used by the Company to partially offset the cost of such hedging transactions. All outstanding warrants expire in equal installments during the 40 consecutive scheduled trading days beginning on May 16, 2014.

During the year ended January 1, 2012, the remaining warrants assumed by the Company in a prior acquisition to purchase approximately 505,000 shares of the Company's common stock were exercised, resulting in cash proceeds to the Company of approximately $5.5 million.

Share Repurchases

On April 18, 2012, the Company's Board of Directors authorized a $250 million stock repurchase program to be effected via a combination of Rule 10b5-1 and discretionary share repurchase programs. During the year ended December 30, 2012, the Company repurchased approximately 1,860,000 shares for $82.5 million.

In August 2011, the Company's board of directors authorized a $100 million discretionary repurchase program. During the year ended January 1, 2012, the Company utilized the authorized amount in its entirety and repurchased approximately 1,894,000 shares under this program.

Concurrently with the issuance of the Company's 2016 Notes in 2011, approximately 4,891,000 shares were repurchased for $314.3 million.

In July 2010, the Company's board of directors authorized a $200 million stock repurchase program, with $100 million allocated to repurchasing Company common stock under a 10b5-1 plan over a twelve month period and $100 million allocated to repurchasing Company common stock at management's discretion during open trading windows. During the year ended January 1, 2012, the Company repurchased approximately 2,438,000 shares for $156.0 million. The authorized repurchase amount had been utilized completely as of January 1, 2012.

Stockholder Rights Plan

In connection with the unsolicited tender offer by Roche (refer to note "12. Unsolicited Tender Offer"), on January 25, 2012, the Company's Board of Directors declared a dividend of one preferred share purchase right (Right) for each outstanding share of the Company's common stock. Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of the Company's Series A Junior Participating Preferred Stock, par value $0.01 per share (Preferred Shares), at a price of $275.00 per one thousandth of a Preferred Share, subject to adjustment. The Rights will not be exercisable until such time, if ever, that the Board of Directors determines to eliminate its deferral of the date on which separate Rights certificates are issued and the Rights trade separately from the Company's common stock (Distribution Date). If a person or group (triggering party) acquires 15% or more of the Company's outstanding common stock, each Right will entitle holders other than the triggering party to purchase, at the exercise price of the Right, a number of shares of common stock having a market value of two times the exercise price of the Right. If the Company is acquired in a merger or other business combination transaction after a person acquires 15% or more of the Company's common stock, each Right will entitle holders other than the triggering party to purchase, at the Right's then-current exercise price, a number of common shares of the acquiring company that at the time of such transaction have a market value of two times the exercise price of the Right. The Board of Directors will be entitled to redeem the Rights at a price of $0.001 per Right at any time before the Distribution Date. The Board of Directors will also be entitled to exchange the Rights at an exchange ratio per Right of one share of common stock after any person acquires beneficial ownership of 15% or more of the Company's outstanding common stock, and prior to the acquisition of 50% or more of the Company's outstanding common stock. The Rights will expire on January 26, 2017.

On May 3, 2001, the board of directors of the Company declared a dividend of one preferred share purchase right (Right) for each outstanding share of common stock of the Company. The dividend was payable on May 14, 2001 to the stockholders of record on that date. Each Right entitles the registered holder to purchase from the Company one unit consisting of one thousandth of a share of its Series A Junior Participating Preferred Stock at a price of $100 per unit. The Rights will be exercisable if a person or group hereafter acquires beneficial ownership of 15% or more of the outstanding common stock of the Company or announces an offer for 15% or more of the outstanding common stock. If a person or group acquires 15% or

more of the outstanding common stock of the Company, each Right will entitle its holder to purchase, at the exercise price of the Right, a number of shares of common stock having a market value of two times the exercise price of the Right. If the Company is acquired in a merger or other business combination transaction after a person acquires 15% or more of the Company's common stock, each Right will entitle its holder to purchase, at the Right's then-current exercise price, a number of common shares of the acquiring company which at the time of such transaction have a market value of two times the exercise price of the Right. The board of directors will be entitled to redeem the Rights at a price of $0.01 per Right at any time before any such person acquires beneficial ownership of 15% or more of the outstanding common stock. The Rights expired on May 14, 2011.

11. Legal Proceedings

The Company is involved in various lawsuits and claims arising in the ordinary course of business, including actions with respect to intellectual property, employment, and contractual matters. In connection with these matters, the Company assesses, on a regular basis, the probability and range of possible loss based on the developments in these matters. A liability is recorded in the financial statements if it is believed to be probable that a loss has been incurred and the amount of the loss can be reasonably estimated. During the year ended December 30, 2012, the Company recorded a legal contingency loss of $3.0 million in aggregate within cost of product revenue. Because litigation is inherently unpredictable and unfavorable resolutions could occur, assessing contingencies is highly subjective and requires judgments about future events. The Company regularly reviews its outstanding legal matters to determine the adequacy of the liabilities accrued and related disclosures. The amount of ultimate loss may differ from these estimates. Each matter presents its own unique circumstances, and prior litigation does not necessarily provide a reliable basis on which to predict the outcome, or range of outcomes, in any individual proceeding. Because of the uncertainties related to the occurrence, amount, and range of loss on any pending litigation or claim, management is currently unable to predict their ultimate outcome, and, with respect to any pending litigation or claim where no liability has been accrued, to make a meaningful estimate of the reasonably possible loss or range of loss that could result from an unfavorable outcome. In the event that opposing litigants in outstanding litigations or claims ultimately succeed at trial and any subsequent appeals on their claims, any potential loss or charges in excess of any established accruals, individually or in the aggregate, could have a material adverse effect on the Company's business, financial condition, results of operations, and/or cash flows in the period in which the unfavorable outcome occurs or becomes probable, and potentially in future periods.

On November 24, 2010, Syntrix Biosystems, Inc. filed suit against the Company in the United States District Court for the Western District of Washington at Tacoma (Case No. C10-5870-BHS) alleging that the Company willfully infringed U.S. Patent No. 6,951,682 by selling its BeadChip array products, and that the Company misappropriated Syntrix's trade secrets. Fact and expert discovery is complete in the case. In November and December 2012, the Company filed motions for summary judgment that the patent is not infringed and is invalid, and that Syntrix's trade secrets claims are barred by various statutes of limitation. Syntrix filed a motion for summary judgment that the patent is valid. On January 30, 2013, the court granted the Company's motion for summary judgment on Syntrix's trade secret claims, and dismissed those claims from the case. The court denied Syntrix's motion for summary judgment on validity, and denied the Company's motion for summary judgment for non-infringement and invalidity. A trial is scheduled to begin on February 26, 2013.

The Company has thoroughly investigated Syntrix's claims and believes the claims are without merit. While the Company believes there is no legal basis for its alleged liability, the Company cannot estimate the possible loss or range of possible loss as there are significant legal and factual issues to be resolved. For example, each party has filed motions seeking to exclude portions of the other party's expert testimony and to preclude the other party from introducing certain other evidence at trial. In addition to post-trial briefing, the parties would likely engage in appellate motion practice, the result of which is also unpredictable and could significantly affect the outcome of the case.

12. Unsolicited Tender Offer

On January 27, 2012, CKH Acquisition Corporation and Roche Holding Ltd. (together, "Roche") commenced an unsolicited tender offer (Offer) to purchase all outstanding shares of the Company's common stock for $44.50 per share. As more fully described in the Company's Solicitation/Recommendation on Schedule 14D-9 filed with the SEC on February 7, 2012 in response to the Offer, the Company's Board of Directors unanimously recommended that the Company's stockholders reject the Offer and not tender their shares to Roche for purchase.

On March 28, 2012, Roche revised the Offer to purchase all outstanding shares of the Company's common stock for $51.00 per share. As more fully described in the Amendment No. 11 to Solicitation/Recommendation on Schedule 14D-9 filed

with the SEC on April 2, 2012 in response to the revised Offer, the Company's Board of Directors unanimously recommended that the Company's stockholders reject the Roche offer and not tender their shares to Roche for purchase. The Offer expired, without being extended, on April 20, 2012.

During the year ended December 30, 2012, the Company recorded $23.1 million in expenses in relation to the Offer, such expenses consisting primarily of legal, advisory, proxy solicitation, and other professional services fees.

13. Income Taxes

The income (loss) before income taxes summarized by region is as follows (in thousands):

	Years Ended		
	December 30, 2012	January 1, 2012	January 2, 2011
United States	$ 102,296	$ (7,100)	$ 109,068
Foreign	120,312	140,145	76,311
Total income before income taxes	$ 222,608	$ 133,045	$ 185,379

The provision for income taxes consists of the following (in thousands):

	Years Ended		
	December 30, 2012	January 1, 2012	January 2, 2011
Current:			
Federal	$ 57,285	$ 43,161	$ 39,476
State	10,121	3,958	8,607
Foreign	31,504	24,154	6,330
Total current provision	98,910	71,273	54,413
Deferred:			
Federal	(7,724)	(22,738)	6,557
State	(7,708)	(8,050)	(6,808)
Foreign	(12,124)	5,932	6,326
Total deferred (benefit) provision	(27,556)	(24,856)	6,075
Total tax provision	$ 71,354	$ 46,417	$ 60,488

The provision for income taxes reconciles to the amount computed by applying the federal statutory rate to income before taxes as follows (in thousands):

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Years Ended		
	December 30, 2012	January 1, 2012	January 2, 2011
Tax at federal statutory rate	$ 77,913	$ 46,566	$ 64,881
State, net of federal benefit	4,056	(49)	6,231
Research and other credits	(2,766)	(6,774)	(5,859)
Acquired in-process research & development	137	1,989	517
Change in valuation allowance	(37)	(688)	(9,497)
Permanent differences	2,380	1,668	1,397
Change in fair value of contingent consideration	—	(1,311)	(3,632)
Impact of foreign operations	(10,644)	5,579	7,597
Other	315	(563)	(1,147)
Total tax provision	$ 71,354	$ 46,417	$ 60,488

Significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	December 30, 2012	January 1, 2012
Deferred tax assets:		
Net operating losses	$ 2,564	$ 4,981
Tax credits	16,447	16,647
Other accruals and reserves	47,306	22,411
Stock compensation	39,175	33,811
Inventory adjustments	8,977	16,469
Impairment of cost-method investment	1,406	4,972
Other amortization	5,195	4,521
Other	13,469	8,861
Total gross deferred tax assets	134,539	112,673
Valuation allowance on deferred tax assets	(1,756)	(1,799)
Total deferred tax assets	132,783	110,874
Deferred tax liabilities:		
Purchased intangible amortization	(20,116)	(19,760)
Convertible debt	(38,910)	(49,404)
Property and equipment	(10,867)	(4,369)
Other	(6,682)	(7,953)
Total deferred tax liabilities	(76,575)	(81,486)
Net deferred tax assets	$ 56,208	$ 29,388

A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction-by-jurisdiction basis, and includes a review of all available positive and negative evidence. Based on the available evidence as of December 30, 2012, the Company was not able to conclude it is more likely than not certain U.S. deferred tax assets will be realized. Therefore, the Company recorded a valuation allowance of $1.8 million against certain U.S. deferred tax assets.

As of December 30, 2012, the Company had net operating loss carryforwards for federal and state tax purposes of $16.8 million and $117.8 million, respectively, which will begin to expire in 2020 and 2015, respectively. In addition, the Company also had state research and development tax credit carryforwards of $39.7 million, which will begin to expire in 2019.

Pursuant to Section 382 and 383 of the Internal Revenue Code, utilization of the Company's net operating loss and credits may be subject to annual limitations in the event of any significant future changes in its ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization. The deferred tax assets as of December 30, 2012 are net of any previous limitations due to Section 382 and 383.

The Company recognizes excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company. During the year ended December 30, 2012, the Company realized $17.0 million of such excess tax benefits, and accordingly recorded a corresponding credit to additional paid in capital. As of December 30, 2012, the Company has $9.8 million of unrealized excess tax benefits associated with share-based compensation. These tax benefits will be accounted for as a credit to additional paid-in capital, if and when realized, rather than a reduction of the provision for income taxes.

The Company's manufacturing operations in Singapore operate under various tax holidays and incentives that begin to expire in 2018. For the year ended December 30, 2012, these tax holidays and incentives resulted in an approximate $10.2 million decrease to the provision for income taxes and an increase to net income per diluted share of $0.08.

It is the Company's intention to indefinitely reinvest all current and future foreign earnings in order to ensure sufficient working capital and expand existing operations outside the United States. Accordingly, residual U.S. income taxes have not been provided on $185.6 million of undistributed earnings of foreign subsidiaries as of December 30, 2012. In the event the Company was required to repatriate funds from outside of the United States, such repatriation would be subject to local laws, customs, and tax consequences.

The following table summarizes the gross amount of the Company's uncertain tax positions (in thousands):

	December 30, 2012	January 1, 2012	January 2, 2011
Balance at beginning of year	$ 28,396	$ 22,729	$ 11,760
Increases related to prior year tax positions	2,573	875	5,066
Decreases related to prior year tax positions	(69)	(382)	—
Increases related to current year tax positions	6,685	5,174	5,903
Balance at end of year	$ 37,585	$ 28,396	$ 22,729

Included in the balance of uncertain tax positions as of December 30, 2012, and January 1, 2012 are $29.9 million and $23.4 million, respectively, of net unrecognized tax benefits that, if recognized, would reduce the Company's effective income tax rate in future periods.

The Company does not expect its uncertain tax positions to change significantly over the next 12 months. Any interest and penalties related to uncertain tax positions are reflected in the provision for income taxes. The Company recognized expenses of $0.8 million and $1.1 million related to potential interest and penalties on uncertain tax positions during the years ended December 30, 2012 and January 1, 2012, respectively. A minimal amount was recognized in 2010 for potential interest and penalties on uncertain tax positions. The Company recorded a liability for potential interest and penalties of $2.1 million and $1.2 million as of December 30, 2012 and January 1, 2012, respectively. Tax years 1997 to 2012 remain subject to future examination by the major tax jurisdictions in which the Company is subject to tax.

14. Employee Benefit Plans

Retirement Plan

The Company has a 401(k) savings plan covering substantially all of its employees in the United States. Company contributions to the plan are discretionary. During the years ended December 30, 2012, January 1, 2012, and January 2, 2011, the Company made matching contributions of $5.5 million, $5.3 million, and $4.2 million, respectively.

Deferred Compensation Plan

The Company adopted the Illumina, Inc. Deferred Compensation Plan (the Plan) that became effective January 1, 2008. Eligible participants, which include the Company's senior level employees and members of the board of directors, can contribute up to 80% of their base salary and 100% of all other forms of compensation into the Plan, including bonus, equity awards, commission, and director fees. The Company has agreed to credit the participants' contributions with earnings that reflect the performance of certain independent investment funds. On a discretionary basis, the Company may also make employer contributions to participant accounts in any amount determined by the Company. The vesting schedules of employer contributions are at the sole discretion of the Compensation Committee. However, all employer contributions shall become 100% vested upon the occurrence of the participant's disability, death or retirement or a change in control of the Company. The benefits under this plan are unsecured. Participants are generally eligible to receive payment of their vested benefit at the end of their elected deferral period or after termination of their employment with the Company for any reason or at a later date to comply with the restrictions of Section 409A. As of December 30, 2012, no employer contributions were made to the Plan.

In January 2008, the Company also established a rabbi trust for the benefit of the participants under the Plan. In accordance with authoritative guidance related to consolidation of variable interest entities and accounting for deferred compensation arrangements where amounts earned are held in a rabbi trust and invested, the Company has included the assets of the rabbi trust in its consolidated balance sheet since the trust's inception. As of December 30, 2012 and January 1, 2012, the assets of the trust were $13.6 million and $10.8 million, respectively, and liabilities of the Company were $12.1 million and $9.0 million, respectively. The assets and liabilities are classified as other assets and accrued liabilities, respectively, on the Company's consolidated balance sheets. Changes in the values of the assets held by the rabbi trust are recorded in other (expense) income, net in the consolidated statement of income, and changes in the values of the deferred compensation liabilities are recorded in cost of sales or operating expenses.

15. Segment Information, Geographic Data, and Significant Customers

The Company is organized in two operating segments: Life Sciences and Diagnostics. Life Sciences operating segment includes all products and services related to the research market, namely the product lines based on the Company's sequencing, BeadArray, and real-time PCR technologies. The Diagnostics operating segment focuses on the emerging opportunity in molecular diagnostics. During all periods presented, the Diagnostics operating segment had limited activity. Accordingly, the Company's operating results for both units were reported on an aggregate basis as one reportable segment. The Company will begin reporting in two segments once revenues, operating profit or loss, or assets of the Diagnostics operating segment exceeds 10% of the consolidated amounts.

The Company had revenue in the following regions for the years ended December 30, 2012, January 1, 2012, and January 2, 2011 (in thousands):

	Years Ended		
	December 30, 2012	January 1, 2012	January 2, 2011
United States	$ 568,443	$ 528,723	$ 498,981
United Kingdom	81,678	67,578	60,521
Other European countries	209,726	210,393	163,062
Asia-Pacific	232,498	197,005	143,441
Other markets	56,171	51,836	36,736
Total	$ 1,148,516	$ 1,055,535	$ 902,741

Net revenues are attributable to geographic areas based on the region of destination.

The majority of our product sales consist of consumables and instruments. For the years ended December 30, 2012, January 1, 2012, and January 2, 2011, consumable sales represented 64%, 56%, and 56%, respectively, of total revenues and instrument sales comprised 27%, 35%, and 36%, respectively, of total revenues. The Company's customers include leading genomic research centers, academic institutions, government laboratories, and clinical research organizations, as well as pharmaceutical, biotechnology, agrigenomics, and consumer genomics companies, and in vitro fertilization clinics. The

Company had no customers that provided more than 10% of total revenue in the years ended December 30, 2012, January 1, 2012, and January 2, 2011.

Net long-lived assets exclude goodwill and other intangible assets since they are not allocated on a geographic basis. The Company had net long-lived assets consisting of property and equipment in the following regions as of December 30, 2012 and January 1, 2012 (in thousands):

	December 30, 2012	January 1, 2012
United States	$ 126,749	$ 94,624
United Kingdom	21,740	22,642
Singapore	12,504	14,673
Other countries	5,174	11,544
Total	$ 166,167	$ 143,483

16. Quarterly Financial Information (unaudited)

The following financial information reflects all normal recurring adjustments, except as noted below, which are, in the opinion of management, necessary for a fair statement of the results and cash flows of interim periods. All quarters for fiscal years 2012 and 2011 ended December 30, 2012 and January 1, 2012 were 13 weeks. Summarized quarterly data for fiscal years 2012 and 2011 are as follows (in thousands except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2012:				
Total revenue	$ 272,770	$ 280,607	$ 285,874	$ 309,265
Gross profit	181,011	192,997	195,873	203,647
Net income	26,202	23,401	29,748	71,903
Net income per share, basic	0.21	0.19	0.24	0.58
Net income per share, diluted	0.20	0.18	0.22	0.53
2011:				
Total revenue	$ 282,515	$ 287,450	$ 235,499	$ 250,071
Gross profit	188,041	193,356	157,115	170,586
Net income	24,137	30,620	20,151	11,720
Net income per share, basic	0.19	0.25	0.17	0.10
Net income per share, diluted	0.16	0.22	0.15	0.09

17. Subsequent Event

On January 6, 2013, the Company entered into a definitive agreement to acquire Verinata Health, Inc. (Verinata), a leading provider of non-invasive tests for the early identification of fetal chromosomal abnormalities, for consideration of $350 million in cash and up to $100 million in milestone payments through 2015. In connection with the intended acquisition, the Company also agreed to provide bridge financing to Verinata for up to an aggregate amount of $45 million in exchange for the issuance of subordinated convertible promissory notes from Verinata. Any subordinated notes outstanding as of the consummation of the acquisition, net of Verinata's cash on hand, will reduce the total cash payments to be made by the Company at closing.

ITEM 9. *Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.*

None.

Exhibit 226

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☑ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended March 31, 2013

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to

Commission File Number 001-35406

Illumina, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**33-0804655**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
5200 Illumina Way, San Diego, CA	**92122**
(Address of principal executive offices)	**(Zip Code)**

(858) 202-4500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of April 12, 2013, there were 124,378,537 shares of the registrant's Common Stock outstanding.

ILLUMINA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended	
	March 31, 2013	April 1, 2012
Revenue:		
Product revenue	$ 296,170	$ 255,636
Service and other revenue	34,788	17,134
Total revenue	330,958	272,770
Cost of revenue:		
Cost of product revenue	89,978	80,151
Cost of service and other revenue	15,138	8,565
Amortization of acquired intangible assets	6,550	3,043
Total cost of revenue	111,666	91,759
Gross profit	219,292	181,011
Operating expense:		
Research and development	61,450	48,839
Selling, general and administrative	85,074	67,969
Legal contingencies	105,853	—
Unsolicited tender offer related expense	7,484	8,092
Acquisition related expense, net	3,821	1,737
Headquarter relocation expense	757	2,140
Restructuring charges	—	2,622
Total operating expense	264,439	131,399
Income (loss) from operations	(45,147)	49,612
Other income (expense):		
Cost-method investment related gain	6,113	—
Interest income	1,933	2,526
Interest expense	(9,747)	(9,202)
Other expense, net	(714)	(2,663)
Total other expense, net	(2,415)	(9,339)
Income (loss) before income taxes	(47,562)	40,273
Provision for (benefit from) for income taxes	(24,975)	14,071
Net income (loss)	$ (22,587)	$ 26,202
Net income (loss) per basic share	$ (0.18)	$ 0.21
Net income (loss) per diluted share	$ (0.18)	$ 0.20
Shares used in calculating basic net income (loss) per share	123,768	122,642
Shares used in calculating diluted net income (loss) per share	123,768	133,859

See accompanying notes to the condensed consolidated financial statements.

Illumina, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Unless the context requires otherwise, references in this report to "Illumina," "we," "us," the "Company," and "our" refer to Illumina, Inc. and its consolidated subsidiaries.

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. In management's opinion, the accompanying financial statements reflect all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the results for the interim periods presented.

Interim financial results are not necessarily indicative of results anticipated for the full year. These unaudited financial statements should be read in conjunction with the Company's audited financial statements and footnotes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2012, from which the balance sheet information herein was derived.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses, and related disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Fiscal Year

The Company's fiscal year consists of 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, September 30, and December 31. The three months ended March 31, 2013 and April 1, 2012 were both 13 weeks.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

Revenue Recognition

The Company's revenue is generated primarily from the sale of products and services. Product revenue primarily consists of sales of instrumentation and consumables used in genetic analysis. Service and other revenue primarily consists of revenue received for performing genotyping and sequencing services, instrument service contract sales, and amounts earned under research agreements with government grants, which are recognized in the period during which the related costs are incurred.

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable, and collectibility is reasonably assured. In instances where final acceptance of the product or system is required, revenue is deferred until all the acceptance criteria have been met. All revenue is recorded net of any discounts.

Revenue from product sales is recognized generally upon transfer of title to the customer, provided that no significant obligations remain and collection of the receivable is reasonably assured. Revenue from instrument service contracts is recognized as the services are rendered, typically evenly over the contract term. Revenue from genotyping and sequencing services is recognized when earned, which is generally at the time the genotyping or sequencing analysis data is made available to the customer or agreed upon milestones are reached.

In order to assess whether the price is fixed or determinable, the Company evaluates whether refund rights exist. If there are refund rights or payment terms based on future performance, the Company defers revenue recognition until the price

becomes fixed or determinable. The Company assesses collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If the Company determines that collection of a payment is not reasonably assured, revenue recognition is deferred until receipt of payment.

The Company regularly enters into contracts where revenue is derived from multiple deliverables including any mix of products or services. These products or services are generally delivered within a short time frame, approximately three to six months, after the contract execution date. Revenue recognition for contracts with multiple deliverables is based on the individual units of accounting determined to exist in the contract. A delivered item is considered a separate unit of accounting when the delivered item has value to the customer on a stand-alone basis. Items are considered to have stand-alone value when they are sold separately by any vendor or when the customer could resell the item on a stand-alone basis. Consideration is allocated at the inception of the contract to all deliverables based on their relative selling price. The relative selling price for each deliverable is determined using vendor specific objective evidence (VSOE) of selling price or third-party evidence of selling price if VSOE does not exist. If neither VSOE nor third-party evidence exists, the Company uses its best estimate of the selling price for the deliverable.

In order to establish VSOE of selling price, the Company must regularly sell the product or service on a standalone basis with a substantial majority priced within a relatively narrow range. VSOE of selling price is usually the midpoint of that range. If there are not a sufficient number of standalone sales and VSOE of selling price cannot be determined, then the Company considers whether third party evidence can be used to establish selling price. Due to the lack of similar products and services sold by other companies within the industry, the Company has rarely established selling price using third-party evidence. If neither VSOE nor third party evidence of selling price exists, the Company determines its best estimate of selling price using average selling prices over a rolling 12-month period coupled with an assessment of current market conditions. If the product or service has no history of sales or if the sales volume is not sufficient, the Company relies upon prices set by the Company's pricing committee adjusted for applicable discounts. The Company recognizes revenue for delivered elements only when it determines there are no uncertainties regarding customer acceptance.

In certain markets, the Company sells products and provides services to customers through distributors that specialize in life science products. In most sales through distributors, the product is delivered directly to customers. In cases where the product is delivered to a distributor, revenue recognition is deferred until acceptance is received from the distributor, and/or the end-user, if required by the applicable sales contract. The terms of sales transactions through distributors are consistent with the terms of direct sales to customers. These transactions are accounted for in accordance with the Company's revenue recognition policy described herein.

Fair Value Measurements

The Company determines the fair value of its assets and liabilities based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The Company uses a fair value hierarchy with three levels of inputs, of which the first two are considered observable and the last unobservable, to measure fair value:

- *Level 1* — Quoted prices in active markets for identical assets or liabilities.
- *Level 2* — Inputs, other than Level 1, that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- *Level 3* — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying amounts of financial instruments such as cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, and accrued liabilities, excluding acquisition related contingent consideration liabilities, approximate the related fair values due to the short-term maturities of these instruments.

Derivatives

The Company is exposed to foreign exchange rate risks in the normal course of business. To manage a portion of the accounting exposure resulting from changes in foreign currency exchange rates, the Company enters into foreign exchange contracts to hedge monetary assets and liabilities that are denominated in currencies other than the U.S. dollar. These foreign exchange contracts are carried at fair value and are not designated as hedging instruments. Changes in the value of the

derivative are recognized in other expense, net, along with an offsetting remeasurement gain or loss on the underlying foreign currency denominated assets or liabilities.

As of March 31, 2013, the Company had foreign exchange forward contracts in place to hedge exposures in the euro, Japanese yen, and Australian dollar. As of March 31, 2013 and December 30, 2012, the total notional amount of outstanding forward contracts in place for foreign currency purchases were approximately $48.0 million and $51.2 million, respectively. Gains and losses related to the non-designated foreign exchange forward contracts for the three months ended March 31, 2013 and April 1, 2012 were immaterial.

Leases

Leases are reviewed and classified as capital or operating at their inception. For leases that contain rent escalations, the Company records rent expense on a straight-line basis over the term of the lease, which includes the construction build-out period and lease extension periods, if appropriate. The difference between rent payments and straight-line rent expense is recorded as deferred rent in accrued liabilities and other long-term liabilities. Landlord allowances are amortized on a straight-line basis over the lease term as a reduction to rent expense. The Company capitalizes leasehold improvements and amortizes them over the shorter of the lease term or their expected useful lives.

In 2012, the Company completed the relocation of its headquarters to another facility in San Diego, California. Headquarter relocation expenses consist of expenses such as accelerated depreciation expense, impairment of assets, additional rent expense during the transition period when both the new and former headquarter facilities are occupied, moving expenses, cease-use losses, and accretion of interest expense on lease exit liability. The Company recorded accelerated depreciation expense for leasehold improvements at its former headquarter facility based on the reassessed useful lives of less than a year. The Company recorded cease-use losses and the corresponding facility exit obligation upon vacating its former headquarters, calculated as the present value of the remaining lease obligation offset by estimated sublease rental receipts during the remaining lease period, adjusted for deferred items and estimated lease incentives. The key assumptions used in the calculation include the amount and timing of estimated sublease rental receipts, and the risk-adjusted discount rate. During the three months ended March 31, 2013, the Company entered into an agreement to sublease a section of its former headquarters. The sublease has an initial term of approximately ten years. Total minimum lease payments during the initial term of the sublease is expected to be $18.7 million. In conjunction with the sublease, the Company issued a letter of credit in the amount of $6.0 million, which will decrease ratably to zero over the term of the sublease.

Net Income (Loss) per Share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the reporting period. Diluted net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the reporting period increased to include dilutive potential common shares calculated using the treasury stock method. Diluted net income (loss) per share reflects the potential dilution from outstanding stock options, restricted stock units, shares issuable under the employee stock purchase plan (ESPP), warrants, shares subject to forfeiture, and convertible senior notes. Under the treasury stock method, convertible senior notes will have a dilutive impact when the average market price of the Company's common stock is above the applicable conversion price of the respective notes. In addition, the following amounts are assumed to be used to repurchase shares: the amount that must be paid to exercise stock options and warrants and purchase shares under the ESPP; the average amount of compensation expense for future services that the Company has not yet recognized for stock options, restricted stock units, ESPP shares, and shares subject to forfeiture; and the amount of tax benefits that will be recorded in additional paid-in capital when the expenses related to respective awards become deductible. In loss periods, basic net loss per share and diluted net loss per share are identical since the effect of otherwise dilutive potential common shares is anti-dilutive and therefore excluded.

The following table presents the calculation of weighted average shares used to calculate basic and diluted net income (loss) per share (in thousands):

	Three Months Ended	
	March 31, 2013	April 1, 2012
Weighted average shares outstanding	123,768	122,642
Effect of dilutive potential common shares from:		
Convertible senior notes	—	991
Equity awards	—	4,060
Warrants sold in connection with convertible senior notes	—	6,166
Weighted average shares used in calculation of diluted net income (loss) per share	123,768	133,859
Potentially dilutive shares excluded from calculation due to anti-dilutive effect	32,942	2,538

2. Balance Sheet Account Details

Short-Term Investments

The following is a summary of short-term investments (in thousands):

	March 31, 2013				December 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:								
Debt securities in government sponsored entities	$ 191,797	$ 377	$ (12)	$ 192,162	$ 314,638	$ 251	$ (16)	$ 314,873
Corporate debt securities	367,323	386	(236)	367,473	471,989	1,059	(187)	472,861
U.S. Treasury securities	64,602	151	—	64,753	128,256	233	—	128,489
Total available-for-sale securities	$ 623,722	$ 914	$ (248)	$ 624,388	$ 914,883	$ 1,543	$ (203)	$ 916,223

As of March 31, 2013, the Company had 57 available-for-sale securities in a gross unrealized loss position, all of which had been in such position for less than twelve months. There were no impairments considered other-than-temporary as it is more likely than not the Company will hold the securities until maturity or until the cost basis is recovered.

The following table shows the fair values and the gross unrealized losses of the Company's available for sale securities that were in an unrealized loss position as of March 31, 2013 and December 30, 2012, aggregated by investment category (in thousands):

	March 31, 2013		December 30, 2012	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Debt securities in government sponsored entities	$ 47,752	$ (12)	$ 28,176	$ (16)
Corporate debt securities	85,884	(236)	130,224	(187)
Total	$ 133,636	$ (248)	$ 158,400	$ (203)

Realized gains and losses are determined based on the specific identification method and are reported in interest income. Gross realized gains and losses on sales of available-for-sale securities for the three months ended March 31, 2013 and April 1, 2012 were immaterial.

Contractual maturities of available-for-sale debt securities as of March 31, 2013 were as follows (in thousands):

	Estimated Fair Value
Due within one year	$ 187,606
After one but within five years	436,782
Total	$ 624,388

Cost-Method Investments

As of March 31, 2013 and December 30, 2012, the aggregate carrying amounts of the Company's cost-method investments in non-publicly traded companies were $52.4 million and $56.3 million, respectively, which were included in other assets on the consolidated balance sheets. During the three months ended March 31, 2013, the Company sold a cost-method investment and recognized a $6.1 million gain. The Company assesses all cost-method investments for impairment quarterly. No impairment loss was recorded during the three months ended March 31, 2013 or April 1, 2012. The Company does not reassess the fair value of cost-method investments if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investments.

Headquarter Facility Exit Obligation

Changes in the Company's facility exit obligation related to its former headquarters lease during the three months ended March 31, 2013 are as follows (in thousands):

Balance as of December 30, 2012	$ 45,352
Additional facility exit obligation accrued	286
Accretion of interest expense	471
Cash settlements	(2,201)
Balance as of March 31, 2013	$ 43,908

Warranties

Changes in the Company's reserve for product warranties from December 30, 2012 through March 31, 2013 are as follows (in thousands):

Balance as of December 30, 2012	$ 10,136
Additions charged to cost of revenue	5,421
Repairs and replacements	(4,751)
Balance as of March 31, 2013	$ 10,806

Inventory

Inventory consists of the following (in thousands):

	March 31, 2013	December 30, 2012
Raw materials	$ 66,589	$ 61,665
Work in process	75,496	75,675
Finished goods	25,874	21,378
Total inventory	$ 167,959	$ 158,718

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	March 31, 2013	December 30, 2012
Accrued compensation expenses	$ 48,933	$ 59,864
Deferred revenue, current portion	45,931	55,817
Accrued taxes payable	24,638	23,021
Customer deposits	17,468	13,765
Unsettled short-term investment purchase	11,050	9,154
Reserve for product warranties	10,806	10,136
Facility exit obligation, current portion	7,255	8,063
Acquisition related contingent liability, current portion	5,825	9,490
Accrued royalties	2,697	2,836
Other	14,148	9,731
Total accrued liabilities	$ 188,751	$ 201,877

3. Acquisitions

Current Period Acquisitions

On February 21, 2013, the Company acquired all of the outstanding capital stock of Verinata Health, Inc. (Verinata), a leading provider of non-invasive tests for the early identification of fetal chromosomal abnormalities. With this acquisition, the Company strengthened its reproductive health diagnostic portfolio by gaining access to Verinata's verifi® non-invasive prenatal test (NIPT) as well as what management believes to be the most comprehensive intellectual property portfolio in the NIPT industry.

The contractual price for the acquisition was $350.0 million, plus potential cash payments of up to $100.0 million based on the achievement of certain regulatory and revenue milestones. The aggregate purchase price was determined to be $401.1 million, including total cash payment of $339.2 million, $61.1 million in fair value of the contingent milestone payments, $0.3 million in fair value of converted stock options attributed to pre-combination services, and $0.5 million in loss realized on settlement of preexisting relationships. In connection with the transaction, the Company deposited into escrow $30.0 million of consideration otherwise payable to shareholders of Verinata. This amount is included in the aggregate consideration and will be held in escrow to cover indemnification claims under the acquisition agreement, if any, for a period of 1.5 years following the completion of the acquisition. The Company's consolidated financial statements for the three months ended March 31, 2013 reflected revenue of $0.9 million and net loss of $4.0 million from Verinata since the acquisition date. During the three months ended March 31, 2013, transaction costs of $3.2 million were expensed as incurred in acquisition related expense, net.

In conjunction with the acquisition, the Company assumed the Verinata Health, Inc. 2008 Stock Plan and converted, as of the acquisition date, the unvested stock options outstanding under the plan, all of which were in the money, into 0.4 million unvested stock options to purchase Illumina's common stock, retaining the original vesting schedules. The fair value of all converted options was $18.8 million, $0.3 million of which was attributed to the pre-combination service period and was included in the calculation of purchase price. The remaining fair value will be recognized over the awards' remaining vesting periods subsequent to the acquisition. The weighted-average acquisition-date fair value of the converted options was determined using the Black-Scholes option pricing model with the following assumptions: (i) market price of $48.36 per share, which was the closing price of Illumina's common stock on the acquisition date; (ii) weighted average expected term of 2.2 years; (iii) weighted average risk-free interest rate of 0.29%; (iv) weighted average annualized volatility of 42%; and (v) no dividend yield. The weighted average acquisition-date fair value per share of the assumed stock options was $42.59.

On the acquisition date, a liability of $61.1 million was recorded for an estimate of the acquisition date fair value of the contingent consideration. Any change in the fair value of the contingent milestone consideration subsequent to the acquisition date was and will be recognized in the statements of operations. The fair value of the regulatory milestone payments was measured by the probability-weighted discounted cash flows and the fair value of the revenue milestone payments was measured using a risk-neutral option pricing model, which captures the present value of the expected payment and the probability of reaching the revenue targets. Key assumptions used in the fair value assessments included discount rates ranging

from 6% to 20%, volatility of 50%, risk-free rates of 0.26%, revenue projections, and the probability of achieving regulatory milestones. This fair value measurement of the contingent consideration is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value.

The allocation of the purchase price to the assets acquired and liabilities assumed was as follows (in thousands):

	Allocation of purchase price
Cash and cash equivalents	$ 9,151
Accounts receivable	3,452
Inventory	1,110
Prepaid expenses and other current assets	953
Property and equipment	12,369
Other assets	978
Intangible assets	170,190
Goodwill	229,120
Accounts payable	(2,539)
Accrued liabilities	(3,670)
Lease financing obligation	(9,416)
Deferred tax liability	(10,572)
Total purchase price	$ 401,126

In conjunction with the acquisition, the Company assumed Verinata's building lease, for which Verinata was considered the accounting owner of the leased building and as such, recorded the fair value of the building as an asset as of the acquisition date. The building is depreciated over a useful life of 30 years. The Company also recorded the related lease financing obligation as a liability assumed, representing the present value of all remaining building lease payments and a balloon payment at the end of the lease for the value of the building to be transferred to the landlord. As of the acquisition date, total remaining payments under the lease was $5.7 million and the remaining lease term was 4.7 years, with two three-year renewal options.

The following table summarizes the fair value of identifiable intangible assets acquired (amounts in thousands):

	Weighted Average Useful Lives (in years)	Fair Value
Developed technology	13	$ 164,100
Customer relationships	5	4,690
Trade name	2	1,400
Total intangible assets acquired, excluding goodwill		$ 170,190

The fair value of the developed technology and trade name was estimated using an income approach. Under the income approach, an intangible asset's fair value is equal to the present value of future economic benefits to be derived from ownership of the asset. The estimated fair value was developed by discounting future net cash flows to their present value at market-based rates of return. The fair value of the customer relationships was developed using a cost approach by estimating the time and personnel effort in constructing the customer base. The useful life of the intangible assets for amortization purposes was determined by considering the period of expected cash flows used to measure the fair value of the intangible assets adjusted as appropriate for the entity-specific factors including legal, regulatory, contractual, competitive economic or other factors that may limit the useful life of intangible assets.

The excess of the fair value of the total consideration over the estimated fair value of the net assets was recorded as goodwill, which was primarily attributable to the synergies expected from combining the technologies of Illumina with those of Verinata, including complementary products that will enhance the Company's overall product portfolio, and the value of the workforce that became our employees following the closing of the acquisitions. The goodwill recognized is not expected to be deductible for income tax purposes.

As of March 31, 2013, the accounting for the Verinata acquisition had not been finalized due to pending items on the valuation of acquired assets and liabilities, including the valuation of certain deferred tax benefits. Based on a preliminary assessment, the Company recorded estimated amounts for these items in its condensed consolidated financial statements as of March 31, 2013. During the measurement period, the Company may record adjustments to the estimated amounts recorded.

In addition, the Company completed another acquisition of a development-stage company during the three months ended March 31, 2013. As a result of this transaction, the Company recorded goodwill of $6.0 million and developed technology of $15.6 million with a useful life of five years.

Pro Forma Information

The following unaudited pro forma information presents the consolidated results of operations of Illumina and Verinata as if the acquisition had occurred at the beginning of each period presented, with pro forma adjustments to give effect to inter-company transactions to be eliminated, amortization of intangible assets, share-based compensation, and transaction costs directly associated with the acquisition (in thousands, except per share amounts):

	Three Months Ended	
	March 31, 2013	April 1, 2012
Net revenues	$ 330,994	$ 271,067
Net income (loss)	$ (31,256)	$ 14,959
Net income (loss) per share-basic	$ (0.25)	$ 0.12
Net income (loss) per share-diluted	$ (0.25)	$ 0.11

These unaudited pro forma condensed consolidated financial results have been prepared for illustrative purposes only and do not purport to be indicative of the results of operations that actually would have resulted had the acquisition occurred on the first day of the earliest period presented, or of the future results of the consolidated entities. The unaudited pro forma condensed consolidated financial information does not reflect any operating efficiencies and cost savings that may be realized from the integration of the acquisition.

Prior Year Acquisitions

On September 19, 2012, the Company announced the acquisition of BlueGnome Ltd (BlueGnome), a provider of cytogenetics and in vitro fertilization screening products. Total consideration for the acquisition was $95.5 million, which included $88.0 million in initial cash payments and $7.5 million in fair value of contingent cash consideration of up to $20.0 million based on the achievement of certain revenue based milestones by December 28, 2014.

The Company estimated the fair value of contingent cash consideration using a probability weighted discounted cash flow approach, a Level 3 measurement based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value. The Company used a discount rate of 30% in the assessment of the acquisition date fair value for the contingent cash consideration. Future changes in significant inputs such as the discount rate and estimated probabilities of milestone achievements could have a significant effect on the fair value of the contingent consideration.

In conjunction with the purchase transaction, the Company also agreed to pay up to $20.0 million to BlueGnome shareholders contingent upon the retention of certain key employees and certain other criteria. Such contingent payments will be recognized as contingent compensation expense over the retention period through December 28, 2014.

The Company allocated approximately $11.2 million of the total consideration to tangible assets, net of liabilities, and $48.9 million to identified intangible assets, including additional developed technologies of $25.0 million, customer relationships of $16.8 million, and a trade name of $7.1 million with average useful lives of seven, five, and ten years, respectively. The Company also recorded a $12.1 million deferred tax liability to reflect the tax impact of certain identified intangible assets, the amortization expenses for which are not tax deductible. The Company recorded the excess consideration of approximately $47.5 million as goodwill.

On January 10, 2011, the Company acquired Epicentre Technologies Corporation (Epicentre), a provider of nucleic acid sample preparation reagents and specialty enzymes used in sequencing and microarray applications. Total consideration for the acquisition was $71.4 million, which included $59.4 million in net cash payments made at closing, $4.6 million in the fair value

of contingent consideration settled in stock that is subject to forfeiture if certain non-revenue based milestones are not met, and $7.4 million in the fair value of contingent cash consideration of up to $15.0 million based on the achievement of certain revenue based milestones by January 10, 2013.

The Company estimated the fair value of contingent stock consideration based on the closing price of its common stock as of the acquisition date. Approximately 229,000 shares of common stock were issued to Epicentre shareholders in connection with the acquisition, which shares are subject to forfeiture if certain non-revenue-based milestones are not met. One third of these shares issued with an assessed fair value of $4.6 million were determined to be part of the purchase price. The remaining shares with an assessed fair value of $10.1 million were determined to be compensation for post-acquisition service, the cost of which was recognized as contingent compensation expense over a period of two years in research and development expense or selling, general and administrative expense.

The Company estimated the fair value of contingent cash consideration using a probability weighted discounted cash flow approach, a Level 3 measurement based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value. The Company used a discount rate of 21% in the assessment of the acquisition date fair value for the contingent cash consideration.

The Company allocated $0.9 million of the total consideration to tangible assets, net of liabilities, and $26.9 million to identified intangible assets, including additional developed technologies of $23.3 million, a trade name of $2.5 million, and customer relationships of $1.1 million, with weighted average useful lives of approximately nine, ten, and three years, respectively. The Company recorded the excess consideration of $43.6 million as goodwill.

Summary of Contingent Compensation Expenses

Adjustments related to contingent compensation recorded as a result of all acquisitions consist of the following (in thousands):

	Three Months Ended	
	March 31, 2013	April 1, 2012
Contingent compensation, included in research and development expense	$ 489	$ 732
Contingent compensation, included in selling, general and administrative expense	2,929	2,360
Total contingent compensation expense	$ 3,418	$ 3,092

4. Fair Value Measurements

The following table presents the Company's hierarchy for assets and liabilities measured at fair value on a recurring basis as of March 31, 2013 and December 30, 2012 (in thousands):

	March 31, 2013				December 30, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Money market funds (cash equivalents)	$ 280,598	$ —	$ —	$ 280,598	$ 252,126	$ —	$ —	$ 252,126
Debt securities in government-sponsored entities	—	192,162	—	192,162	—	314,873	—	314,873
Corporate debt securities	—	367,473	—	367,473	—	472,861	—	472,861
U.S. Treasury securities	64,753	—	—	64,753	128,489	—	—	128,489
Deferred compensation plan assets	—	15,690	—	15,690	—	13,626	—	13,626
Total assets measured at fair value	$ 345,351	$ 575,325	$ —	$ 920,676	$ 380,615	$ 801,360	$ —	$ 1,181,975
Liabilities:								
Acquisition related contingent consideration liabilities	$ —	$ —	$ 70,751	$ 70,751	$ —	$ —	$ 12,519	$ 12,519
Deferred compensation liability	—	13,624	—	13,624	—	12,071	—	12,071
Total liabilities measured at fair value	$ —	$ 13,624	$ 70,751	$ 84,375	$ —	$ 12,071	$ 12,519	$ 24,590

The Company holds available-for-sale securities that consist of highly liquid, investment grade debt securities. The Company determines the fair value of its debt security holdings based on pricing from a service provider. The service provider values the securities based on "consensus pricing," using market prices from a variety of industry-standard independent data providers. Such market prices may be quoted prices in active markets for identical assets or liabilities (Level 1 inputs) or pricing determined using inputs that are observable either directly or indirectly (Level 2 inputs), such as quoted prices for similar assets or liabilities, yield curve, volatility factors, credit spreads, default rates, loss severity, current market and contractual prices for the underlying instruments or debt, broker and dealer quotes, as well as other relevant economic measures. The Company's deferred compensation plan assets consist primarily of mutual funds. The Company performs certain procedures to corroborate the fair value of its holdings, including comparing prices obtained from service providers to prices obtained from other reliable sources.

The Company reassesses the fair value of contingent consideration to be settled in cash related to acquisitions on a quarterly basis using the income approach. This is a Level 3 measurement. Significant assumptions used in the measurement include probabilities of achieving the remaining milestones and the discount rates, which depend on the milestone risk profiles. The changes in the fair value of the contingent considerations during the three months ended March 31, 2013 were due to changes in the estimated payments and a shorter discounting period.

Changes in estimated fair value of contingent consideration liabilities from December 30, 2012 through March 31, 2013 are as follows (in thousands):

	Contingent Consideration Liability (Level 3 Measurement)
Balance as of December 30, 2012	$ 12,519
Additional liability recorded as a result of current period acquisitions	62,144
Change in estimated fair value, recorded in acquisition related expense, net	464
Cash settlements	(4,376)
Balance as of March 31, 2013	$ 70,751

5. Convertible Senior Notes

0.25% Convertible Senior Notes due 2016

In 2011, the Company issued $920.0 million aggregate principal amount of 0.25% convertible senior notes due 2016 (2016 Notes) in an offering conducted in accordance with Rule 144A under the Securities Act of 1933, as amended. The 2016 Notes were issued at 98.25% of par value. Debt issuance costs of approximately $0.4 million were primarily comprised of legal, accounting, and other professional fees, the majority of which were recorded in other noncurrent assets and are being amortized to interest expense over the five-year term of the 2016 Notes.

The 2016 Notes will be convertible into cash, shares of common stock, or a combination of cash and shares of common stock, at the Company's election, based on an initial conversion rate, subject to adjustment, of 11.9687 shares per $1,000 principal amount of the 2016 Notes (which represents an initial conversion price of approximately $83.55 per share), only in the following circumstances and to the following extent: (1) during the five business-day period after any 10 consecutive trading day period (the "measurement period") in which the trading price per 2016 Note for each day of such measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such day; (2) during any calendar quarter (and only during that quarter) after the calendar quarter ending March 31, 2011, if the last reported sale price of the Company's common stock for 20 or more trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; (3) upon the occurrence of specified events described in the indenture for the 2016 Notes; and (4) at any time on or after December 15, 2015 through the second scheduled trading day immediately preceding the maturity date.

As noted in the indenture for the 2016 Notes, it is the Company's intent and policy to settle conversions through combination settlement, which essentially involves repayment of an amount of cash equal to the "principal portion" and delivery of the "share amount" in excess of the conversion value over the principal portion in shares of common stock. In general, for each $1,000 in principal, the "principal portion" of cash upon settlement is defined as the lesser of $1,000, and the conversion value during the 20-day observation period as described in the indenture for the 2016 Notes. The conversion value is the sum of the daily conversion value which is the product of the effective conversion rate divided by 20 days and the daily volume weighted average price (VWAP) of the Company's common stock. The "share amount" is the cumulative "daily share amount" during the observation period, which is calculated by dividing the daily VWAP into the difference between the daily conversion value (i.e., conversion rate x daily VWAP) and $1,000.

The Company pays 0.25% interest per annum on the principal amount of the 2016 Notes semiannually in arrears in cash on March 15 and September 15 of each year. The 2016 Notes mature on March 15, 2016. If a designated event, as defined in the indenture for the 2016 Notes, such as an acquisition, merger, or liquidation, occurs prior to the maturity date, subject to certain limitations, holders of the 2016 Notes may require the Company to repurchase all or a portion of their 2016 Notes for cash at a repurchase price equal to 100% of the principal amount of the 2016 Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the repurchase date.

The Company accounts separately for the liability and equity components of the 2016 Notes in accordance with authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. The guidance requires the carrying amount of the liability component to be estimated by measuring the fair value of a similar liability that does not have an associated conversion feature. Because the Company has no outstanding non-convertible public debt, the Company determined that senior, unsecured corporate bonds traded on the market represent a similar liability to the convertible senior

notes without the conversion option. Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, the Company estimated the implied interest rate of its 2016 Notes to be 4.5%, assuming no conversion option. Assumptions used in the estimate represent what market participants would use in pricing the liability component, including market interest rates, credit standing, and yield curves, all of which are defined as Level 2 observable inputs. The estimated implied interest rate was applied to the 2016 Notes, which resulted in a fair value of the liability component of $748.5 million upon issuance, calculated as the present value of implied future payments based on the $920.0 million aggregate principal amount. The $155.4 million difference between the cash proceeds of $903.9 million and the estimated fair value of the liability component was recorded in additional paid-in capital as the 2016 Notes are not considered currently redeemable at the balance sheet date.

As a policy election under applicable guidance related to the calculation of diluted net income per share, the Company elected the combination settlement method as its stated settlement policy and applied the treasury stock method in the calculation of dilutive impact of the 2016 Notes. During the three months ended March 31, 2013 and April 1, 2012, the 2016 Notes were not convertible and therefore not included in the calculation of weighted average shares outstanding. If the 2016 Notes were converted as of March 31, 2013, the if-converted value would not exceed the principal amount.

0.625% Convertible Senior Notes due 2014

In 2007, the Company issued $400.0 million principal amount of 0.625% convertible senior notes due 2014 (2014 Notes). The Company pays 0.625% interest per annum on the principal amount of the 2014 Notes semi-annually in arrears in cash on February 15 and August 15 of each year. The 2014 Notes mature on February 15, 2014. The effective interest rate of the liability component was estimated to be 8.3%.

The Company entered into hedge transactions concurrently with the issuance of the 2014 Notes under which the Company is entitled to purchase up to approximately 18,322,000 shares of the Company's common stock at a strike price of approximately $21.83 per share, subject to adjustment. The convertible note hedge transactions had the effect of reducing dilution to the Company's stockholders upon conversion of the 2014 Notes. Also concurrently with the issuance of the 2014 Notes, the Company sold to the hedge counterparties warrants exercisable, on a cashless basis, for up to approximately 18,322,000 shares of the Company's common stock at a strike price of $31.435 per share, subject to adjustment. The proceeds from these warrants partially offset the cost to the Company of the convertible note hedge transactions.

The 2014 Notes became convertible into cash and shares of the Company's common stock in various prior periods and became convertible again from April 1, 2012 through, and including, June 30, 2013. There were no conversions of the 2014 Notes during the three months ended March 31, 2013 and the year ended December 30, 2012. During the year ended January 1, 2012, the principal amount of 2014 Notes converted was repaid with cash and the excess of the conversion value over the principal amount was paid in shares of common stock. The equity dilution resulting from the issuance of common stock related to the conversion of the 2014 Notes was offset by repurchase of the same amount of shares under the convertible note hedge transactions, which were automatically exercised in accordance with their terms at the time of each conversion. The balance of the convertible note hedge transactions with respect to approximately $40.1 million principal amount of the 2014 Notes (which are convertible for up to approximately 1,838,000 shares of the Company's common stock) remained in place as of March 31, 2013. The warrants were not affected by the early conversions of the 2014 Notes and, as a result, warrants covering up to approximately 18,322,000 shares of common stock remained outstanding as of March 31, 2013. If the remaining 2014 Notes were converted as of March 31, 2013, the if-converted value would exceed the principal amount by $58.3 million.

The following table summarizes information about the equity and liability components of the 2014 Notes and 2016 Notes (dollars in thousands). The fair values of the respective notes outstanding were measured based on quoted market prices.

	March 31, 2013		December 30, 2012	
	2016 Notes	2014 Notes	2016 Notes	2014 Notes
Principal amount of convertible notes outstanding	$ 920,000	$ 40,125	$ 920,000	$ 40,125
Unamortized discount of liability component	(106,259)	(2,484)	(114,594)	(3,158)
Net carrying amount of liability component	813,741	37,641	805,406	36,967
Less: current portion	—	(37,641)	—	(36,967)
Long-term debt	$ 813,741	$ —	$ 805,406	$ —
Conversion option subject to cash settlement	—	$ 2,484	—	$ 3,158
Carrying value of equity component, net of debt issuance cost	$ 155,366	$ 112,143	$ 155,366	$ 111,470
Fair value of outstanding notes (Level 2 measurement)	$ 887,878	$ 99,546	$ 892,446	$ 101,470
Remaining amortization period of discount on the liability component	3.0 years	0.9 years	3.2 years	1.1 years

Contractual coupon interest expense and accretion of discount on the liability component recorded for the convertible senior notes during the three months ended March 31, 2013 and April 1, 2012, respectively, were as follows (in thousands):

	Three Months Ended	
	March 31, 2013	April 1, 2012
Contractual coupon interest expense	$ 636	$ 560
Accretion of discount on the liability component	$ 9,009	$ 8,599

6. Share-based Compensation Expense

Share-based compensation expense for all stock awards consists of the following (in thousands):

	Three Months Ended	
	March 31, 2013	April 1, 2012
Cost of product revenue	$ 1,442	$ 1,812
Cost of service and other revenue	154	17
Research and development	8,006	7,427
Selling, general and administrative	14,617	13,773
Share-based compensation expense before taxes	24,219	23,029
Related income tax benefits	(7,565)	(7,823)
Share-based compensation expense, net of taxes	$ 16,654	$ 15,206

The assumptions used for the specified reporting periods and the resulting estimates of weighted average fair value per share of options granted and for stock purchase rights granted under the ESPP for the three months ended March 31, 2013 are as follows:

	Stock Options	Employee Stock Purchase Rights
Risk-free interest rate	0.14 - 0.80%	0.11 - 0.15%
Expected volatility	30 - 44%	31%
Expected term	0.8 - 4.7 years	0.5 - 1.0 year
Expected dividends	—	—
Weighted average fair value per share	$ 42.14	$ 13.11

As of March 31, 2013, approximately $206.0 million of unrecognized compensation cost related to stock options, restricted stock, performance stock, and ESPP shares is expected to be recognized over a weighted average period of approximately 2.3 years.

7. Stockholders' Equity

Stock Options

The Company's stock option activity under all stock option plans during the three months ended March 31, 2013 is as follows:

	Options (in thousands)	Weighted Average Exercise Price per Share
Outstanding as of December 30, 2012	8,351	$ 32.10
Granted	451	7.08
Exercised	(301)	20.86
Cancelled	(56)	57.90
Outstanding as of March 31, 2013	8,445	$ 31.00

At March 31, 2013, outstanding options to purchase approximately 6,707,000 shares were exercisable with a weighted average exercise price per share of $29.41. Grant activity during the current quarter was primarily attributable to the acquisition of Verinata and the related conversion of stock options to purchase Verinata common stock to stock options to purchase Illumina's common stock.

Restricted Stock

A summary of the Company's restricted stock activity and related information for the three months ended March 31, 2013 is as follows:

	Restricted Stock	Weighted Average Grant-Date Fair Value per Share
	(in thousands)	
Outstanding at December 30, 2012	4,125	$ 46.43
Awarded	421	50.94
Vested	(444)	54.15
Cancelled	(96)	48.93
Outstanding as of March 31, 2013	4,006	$ 46.62

Performance Stock Units

The Company issues performance stock units for which the number of shares issuable will range from 50% and 150% of the shares approved in the award, based on the Company's performance relative to specified earnings per share targets at the end of a three-year performance period. A summary of the Company's performance stock unit activity and related information for the three months ended March 31, 2013 is as follows:

	Performance Stock (in thousands)	Weighted Average Grant-Date Fair Value per Share
Outstanding at December 30, 2012	587	$ 49.64
Awarded	438	50.33
Cancelled	(20)	50.54
Outstanding as of March 31, 2013	1,005	$ 49.92

Employee Stock Purchase Plan

The price at which common stock is purchased under the ESPP is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. During the three months ended March 31, 2013, approximately 195,000 shares were issued under the ESPP. As of March 31, 2013, there were approximately 15,211,000 shares available for issuance under the ESPP.

Warrants

As of March 31, 2013, warrants exercisable, on a cashless basis, for up to approximately 18,322,000 shares of common stock were outstanding with an exercise price of $31.435. These warrants were sold to counterparties to the Company's convertible note hedge transactions in connection with the offering of the 2014 Notes, with the proceeds of such warrants used by the Company to partially offset the cost of such hedging transactions. All outstanding warrants expire in equal installments during the 40 consecutive scheduled trading days beginning on May 16, 2014.

Share Repurchases

On April 18, 2012, the Company's Board of Directors authorized a $250 million stock repurchase program to be effected via a combination of Rule 10b5-1 and discretionary share repurchase programs. During the three months ended March 31, 2013, the Company repurchased approximately 489,000 shares for $25.0 million.

Stockholder Rights Plan

On January 25, 2012, the Company's Board of Directors declared a dividend of one preferred share purchase right (Right) for each outstanding share of the Company's common stock. During the three months ended March 31, 2013, the expiration date was amended to be March 27, 2013 and the Rights expired accordingly.

8. Income Taxes

The Company's effective tax rate may vary from the U.S statutory tax rate due to the change in the mix of earnings in tax jurisdictions with different statutory rates, benefits related to tax credits, and the tax impact of non-deductible expenses and other permanent differences between income before income taxes and taxable income. The effective tax rate for the three months ended March 31, 2013 was 52.5%. The variance from the U.S. federal statutory rate of 35% was primarily attributable to the tax treatment of the Syntrix legal contingency, which was recorded as a discrete item during Q1 2013 and is nondeductible for tax purposes until paid. The retroactive reinstatement of the 2012 federal research and development credit as part of the American Taxpayer Relief Act of 2012 that was enacted on January 2, 2013 increased the benefit from income taxes in Q1 2013 by approximately $2.0 million.

9. Legal Proceedings

The Company is involved in various lawsuits and claims arising in the ordinary course of business, including actions with respect to intellectual property, employment, and contractual matters. In connection with these matters, the Company assesses, on a regular basis, the probability and range of possible loss based on the developments in these matters. A liability is recorded in the financial statements if it is believed to be probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Because litigation is inherently unpredictable and unfavorable resolutions could occur, assessing contingencies is highly subjective and requires judgments about future events. The Company regularly reviews outstanding legal matters to determine the adequacy of the liabilities accrued and related disclosures. The amount of ultimate loss may differ from these estimates. Each matter presents its own unique circumstances, and prior litigation does not necessarily provide a reliable basis on which to predict the outcome, or range of outcomes, in any individual proceeding. Because of the uncertainties related to the occurrence, amount, and range of loss on any pending litigation or claim, the Company is currently unable to predict their ultimate outcome, and, with respect to any pending litigation or claim where no liability has been accrued, to make a meaningful estimate of the reasonably possible loss or range of loss that could result from an unfavorable outcome. In the event that opposing litigants in outstanding litigations or claims ultimately succeed at trial and any subsequent appeals on their claims, any potential loss or charges in excess of any established accruals, individually or in the aggregate, could have a material adverse effect on the Company's business, financial condition, results of operations, and/or cash flows in the period in which the unfavorable outcome occurs or becomes probable, and potentially in future periods.

On November 24, 2010, Syntrix Biosystems, Inc. filed suit against the Company in the United States District Court for the Western District of Washington at Tacoma (Case No. C10-5870-BHS) alleging that the Company willfully infringed U.S. Patent No. 6,951,682 by selling its BeadChip array products, and that the Company misappropriated Syntrix's trade secrets. In November and December 2012, the Company filed motions for summary judgment that the patent is not infringed and is invalid, and that Syntrix's trade secrets claims are barred by various statutes of limitation. Syntrix filed a motion for summary judgment that the patent is valid. On January 30, 2013, the court granted the Company's motion for summary judgment on Syntrix's trade secret claims, and dismissed those claims from the case. The court denied Syntrix's motion for summary judgment on validity, and denied the Company's motion for summary judgment for non-infringement and invalidity. On March 14, 2013, a jury reached a verdict in favor of Syntrix, finding that Illumina's BeadChip kits infringe the Syntrix patent, that a reasonable royalty rate is 6%, and that damages owed to Syntrix for the period from 2005 through September 2012 are approximately $95.8 million. During trial, the court dismissed Syntrix's claim that the alleged infringement was willful. No final judgment has yet been entered. Prior to entry of judgment, additional damages and prejudgment interest will be calculated through the date of the verdict. The Company believes strongly that it did not infringe the Syntrix patent and that the patent is invalid. The Company intends to file a post-trial motion asking the trial court to enter a judgment in its favor as a matter of law or, alternatively, to grant a new trial. Issues also remain to be litigated regarding any future damages to which Syntrix might be entitled and/or injunctive relief. To date, Syntrix has not filed a motion seeking injunctive relief, and the Company believes that such a motion is unlikely to be granted by the trial court. In addition, if the Company's post-trial motions are unsuccessful, the Company plans to file an appeal to the Court of Appeals for the Federal Circuit challenging the adverse verdict.

As a result of the jury verdict, the Company has recorded a legal contingency accrual of $106.9 million as of March 31, 2013, which includes the damages awarded to Syntrix, a preliminary estimate of prejudgment interest, and estimated additional damages through March 31, 2013. The accrued damages through the jury verdict date of $105.9 million was recorded within operating expenses as a separate line item, and the remainder, representing the royalty amount subsequent to the verdict date, was recorded to cost of sales. In addition, the Company will continue to accrue ongoing royalties on future sales at the royalty rate stated in the jury verdict. The Company may be required to secure the amount of the judgment during the appeals process.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is provided in addition to the accompanying condensed consolidated financial statements and notes to assist readers in understanding our results of operations, financial condition, and cash flows. This MD&A is organized as follows:

- *Business Overview and Outlook*. High level discussion of our operating results and significant known trends that affect our business.
- *Results of Operations*. Detailed discussion of our revenues and expenses.
- *Liquidity and Capital Resources*. Discussion of key aspects of our statements of cash flows, changes in our financial position, and our financial commitments.

Exhibit 227

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☑ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended June 30, 2013

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to

Commission File Number 001-35406

Illumina, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**33-0804655**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
5200 Illumina Way, San Diego, CA	**92122**
(Address of principal executive offices)	**(Zip Code)**

(858) 202-4500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of July 10, 2013, there were 125,120,781 shares of the registrant's Common Stock outstanding.

ILLUMINA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Revenue:				
Product revenue	$ 313,497	$ 258,839	$ 609,667	$ 514,475
Service and other revenue	32,597	21,768	67,385	38,902
Total revenue	346,094	280,607	677,052	553,377
Cost of revenue:				
Cost of product revenue	98,150	74,911	188,128	155,062
Cost of service and other revenue	15,951	9,656	31,089	18,221
Amortization of acquired intangible assets	8,584	3,043	15,134	6,086
Total cost of revenue	122,685	87,610	234,351	179,369
Gross profit	223,409	192,997	442,701	374,008
Operating expense:				
Research and development	67,608	71,223	129,058	120,062
Selling, general and administrative	88,700	68,516	173,774	136,485
Legal contingencies	9,516	—	115,369	—
Acquisition related (gain) expense, net	(5,725)	1,080	(1,904)	2,817
Unsolicited tender offer related expense	4,811	6,694	12,295	14,786
Headquarter relocation	(1,507)	1,830	(750)	3,970
Restructuring	—	674	—	3,296
Total operating expense	163,403	150,017	427,842	281,416
Income from operations	60,006	42,980	14,859	92,592
Other income (expense):				
Interest income	722	1,385	2,655	3,911
Interest expense	(10,045)	(9,508)	(19,792)	(18,710)
Cost-method investment related gain	—	—	6,113	—
Other expense, net	(1,323)	(70)	(2,037)	(2,733)
Total other expense, net	(10,646)	(8,193)	(13,061)	(17,532)
Income before income taxes	49,360	34,787	1,798	75,060
Provision for (benefit from) for income taxes	13,483	11,386	(11,492)	25,457
Net income	$ 35,877	$ 23,401	$ 13,290	$ 49,603
Net income per basic share	$ 0.29	$ 0.19	$ 0.11	$ 0.40
Net income per diluted share	$ 0.26	$ 0.18	$ 0.10	$ 0.37
Shares used in calculating basic net income per share	124,362	123,214	124,065	122,928
Shares used in calculating diluted net income per share	139,377	133,011	137,645	133,435

See accompanying notes to the condensed consolidated financial statements.

Illumina, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Unless the context requires otherwise, references in this report to "Illumina," "we," "us," the "Company," and "our" refer to Illumina, Inc. and its consolidated subsidiaries.

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. In management's opinion, the accompanying financial statements reflect all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the results for the interim periods presented.

Interim financial results are not necessarily indicative of results anticipated for the full year. These unaudited financial statements should be read in conjunction with the Company's audited financial statements and footnotes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2012, from which the balance sheet information herein was derived.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses, and related disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Fiscal Year

The Company's fiscal year consists of 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, September 30, and December 31. The three and six months ended June 30, 2013 and July 1, 2012 were both 13 and 26 weeks, respectively.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

Reserve for Product Warranties

The Company generally provides a one-year warranty on instruments. Additionally, the Company provides a warranty on consumables through the expiration date, which generally ranges from six to 12 months after the manufacture date. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses based on historical experience as well as anticipated product performance. The Company periodically reviews the adequacy of its warranty reserve and adjusts the warranty accrual, if necessary, based on actual experience and estimated costs to be incurred. Warranty expense is recorded as a component of cost of product revenue.

Revenue Recognition

The Company's revenue is generated primarily from the sale of products and services. Product revenue primarily consists of sales of instrumentation and consumables used in genetic analysis. Service and other revenue primarily consists of revenue received for performing genotyping and sequencing services, instrument service contract sales, and amounts earned under research agreements with government grants, which are recognized in the period during which the related costs are incurred.

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable, and collectibility is reasonably assured. In instances where final acceptance of the product or system is required, revenue is deferred until all the acceptance criteria have been met. All revenue is recorded net of any discounts.

Revenue from product sales is recognized generally upon transfer of title to the customer, provided that no significant obligations remain and collection of the receivable is reasonably assured. Revenue from instrument service contracts is recognized as the services are rendered, typically evenly over the contract term. Revenue from genotyping and sequencing services is recognized when earned, which is generally at the time the genotyping or sequencing analysis data is made available to the customer or agreed upon milestones are reached.

In order to assess whether the price is fixed or determinable, the Company evaluates whether refund rights exist. If there are refund rights or payment terms based on future performance, the Company defers revenue recognition until the price becomes fixed or determinable. The Company assesses collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If the Company determines that collection of a payment is not reasonably assured, revenue recognition is deferred until receipt of payment.

The Company regularly enters into contracts where revenue is derived from multiple deliverables including any mix of products or services. These products or services are generally delivered within a short time frame, approximately three to six months, after the contract execution date. Revenue recognition for contracts with multiple deliverables is based on the individual units of accounting determined to exist in the contract. A delivered item is considered a separate unit of accounting when the delivered item has value to the customer on a stand-alone basis. Items are considered to have stand-alone value when they are sold separately by any vendor or when the customer could resell the item on a stand-alone basis. Consideration is allocated at the inception of the contract to all deliverables based on their relative selling price. The relative selling price for each deliverable is determined using vendor specific objective evidence (VSOE) of selling price or third-party evidence of selling price if VSOE does not exist. If neither VSOE nor third-party evidence exists, the Company uses its best estimate of the selling price for the deliverable.

In order to establish VSOE of selling price, the Company must regularly sell the product or service on a standalone basis with a substantial majority priced within a relatively narrow range. VSOE of selling price is usually the midpoint of that range. If there are not a sufficient number of standalone sales and VSOE of selling price cannot be determined, then the Company considers whether third party evidence can be used to establish selling price. Due to the lack of similar products and services sold by other companies within the industry, the Company has rarely established selling price using third-party evidence. If neither VSOE nor third party evidence of selling price exists, the Company determines its best estimate of selling price using average selling prices over a rolling 12-month period coupled with an assessment of current market conditions. If the product or service has no history of sales or if the sales volume is not sufficient, the Company relies upon prices set by the Company's pricing committee adjusted for applicable discounts. The Company recognizes revenue for delivered elements only when it determines there are no uncertainties regarding customer acceptance.

In certain markets, the Company sells products and provides services to customers through distributors that specialize in life science products. In most sales through distributors, the product is delivered directly to customers. In cases where the product is delivered to a distributor, revenue recognition is deferred until acceptance is received from the distributor, and/or the end-user, if required by the applicable sales contract. The terms of sales transactions through distributors are consistent with the terms of direct sales to customers. These transactions are accounted for in accordance with the Company's revenue recognition policy described herein.

Fair Value Measurements

The Company determines the fair value of its assets and liabilities based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The Company uses a fair value hierarchy with three levels of inputs, of which the first two are considered observable and the last unobservable, to measure fair value:

- *Level 1* — Quoted prices in active markets for identical assets or liabilities.
- *Level 2* — Inputs, other than Level 1, that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- *Level 3* — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying amounts of financial instruments such as cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, and accrued liabilities, excluding acquisition related contingent consideration liabilities, approximate the related fair values due to the short-term maturities of these instruments.

Goodwill, Intangible Assets and Other Long-Lived Assets

Goodwill, which has an indefinite useful life, represents the excess of cost over fair value of net assets acquired. The change in the carrying value of goodwill during the six months ended June 30, 2013 was due to goodwill recorded in connection with acquisitions. Goodwill is reviewed for impairment at least annually during the second quarter, or more frequently if an event occurs indicating the potential for impairment. During its goodwill impairment review, the Company may assess qualitative factors to determine whether it is more likely than not that the fair value of its single reporting unit is less than its carrying amount, including goodwill. The qualitative factors include, but are not limited to, macroeconomic conditions, industry and market considerations, and the overall financial performance of the Company. If, after assessing the totality of these qualitative factors, the Company determines that it is not more likely than not that the fair value of its reporting unit is less than its carrying amount, then no more assessment is deemed necessary. Otherwise, the Company proceeds to perform the two-step test for goodwill impairment. The first step involves comparing the estimated fair value of the reporting unit with its carrying value, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the Company performs the second step of the goodwill impairment test to determine the amount of loss, which involves comparing the implied fair value of the goodwill to the carrying value of the goodwill. The Company may also elect to bypass the qualitative assessment in a period and elect to proceed to perform the first step of the goodwill impairment test. The Company performed its annual assessment for goodwill impairment in the second quarter of 2013, noting no impairment.

The Company's identifiable intangible assets are typically comprised of acquired core technologies, licensed technologies, customer relationships, and trade names. The cost of all identifiable intangible assets with finite lives is amortized on a straight-line basis over the assets' respective estimated useful lives.

The Company regularly performs reviews to determine if any event has occurred that may indicate its intangible assets with finite useful lives and other long-lived assets are potentially impaired. If indicators of impairment exist, the Company performs an impairment test to assess the recoverability of the affected assets by determining whether the carrying amount of such assets exceeds the undiscounted expected future cash flows. If the affected assets are not recoverable, the Company estimates the fair value of the assets and records an impairment loss if the carrying value of the assets exceeds the fair value. Factors that would indicate potential impairment include a significant decline in the Company's stock price and market capitalization compared to its net book value, significant changes in the ability of a particular asset to generate positive cash flows, and significant changes in the Company's strategic business objectives and utilization of a particular asset. The Company performed quarterly reviews of its intangible assets with finite useful lives and other long-lived assets and noted no significant impairments for the three and six months ended June 30, 2013.

Derivatives

The Company is exposed to foreign exchange rate risks in the normal course of business. To manage a portion of the accounting exposure resulting from changes in foreign currency exchange rates, the Company enters into foreign exchange contracts to hedge monetary assets and liabilities that are denominated in currencies other than the U.S. dollar. These foreign exchange contracts are carried at fair value and are not designated as hedging instruments. Changes in the value of the derivative are recognized in other expense, net, along with an offsetting remeasurement gain or loss on the underlying foreign currency denominated assets or liabilities.

As of June 30, 2013, the Company had foreign exchange forward contracts in place to hedge exposures in the euro, Japanese yen, and Australian dollar. As of June 30, 2013 and December 30, 2012, the total notional amounts of outstanding forward contracts in place for foreign currency purchases were approximately $42.2 million and $51.2 million, respectively. Gains related to the non-designated foreign exchange forward contracts for the six months ended June 30, 2013 were $3.2 million. Such gains or losses were immaterial for all other periods presented.

Leases

Leases are reviewed and classified as capital or operating at their inception. For leases that contain rent escalations, the Company records rent expense on a straight-line basis over the term of the lease, which includes the construction build-out period and lease extension periods, if appropriate. The difference between rent payments and straight-line rent expense is recorded as deferred rent in accrued liabilities and other long-term liabilities. Landlord allowances are amortized on a straight-

line basis over the lease term as a reduction to rent expense. The Company capitalizes leasehold improvements and amortizes them over the shorter of the lease term or their expected useful lives.

In 2012, the Company completed the relocation of its headquarters to another facility in San Diego, California. Headquarter relocation expenses consist of expenses such as accelerated depreciation expense, impairment of assets, additional rent expense during the transition period when both the new and former headquarter facilities are occupied, moving expenses, cease-use losses, and accretion of interest expense on lease exit liability. The Company recorded accelerated depreciation expense for leasehold improvements at its former headquarter facility based on the reassessed useful lives of less than a year. The Company recorded cease-use losses and the corresponding facility exit obligation upon vacating its former headquarters, calculated as the present value of the remaining lease obligation offset by estimated sublease rental receipts during the remaining lease period, adjusted for deferred items and estimated lease incentives. The key assumptions used in the calculation include the amount and timing of estimated sublease rental receipts, and the risk-adjusted discount rate.

During the six months ended June 30, 2013, the Company entered into an agreement to sublease sections of its former headquarters. The sublease has an initial term of approximately ten years. Minimum lease payments during the initial term of the sublease are expected to be $30.5 million in total. In conjunction with the sublease, the Company issued a letter of credit in the amount of $8.0 million, which will decrease ratably to zero over the term of the sublease.

During the three months ended June 30, 2013, the Company entered into an agreement to lease a facility in San Francisco, California for an initial term of approximately ten years. Minimum lease payments during the initial term are estimated to be $46.5 million in total.

Net Income per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the reporting period increased to include dilutive potential common shares calculated using the treasury stock method. Diluted net income per share reflects the potential dilution from outstanding stock options, restricted stock units, shares issuable under the employee stock purchase plan (ESPP), warrants, shares subject to forfeiture, and convertible senior notes. Under the treasury stock method, convertible senior notes will have a dilutive impact when the average market price of the Company's common stock is above the applicable conversion price of the respective notes. In addition, the following amounts are assumed to be used to repurchase shares: the amount that must be paid to exercise stock options and warrants and purchase shares under the ESPP; the average amount of compensation expense for future services that the Company has not yet recognized for stock options, restricted stock units, ESPP shares, and shares subject to forfeiture; and the amount of tax benefits that will be recorded in additional paid-in capital when the expenses related to respective awards become deductible. In loss periods, basic net loss per share and diluted net loss per share are identical since the effect of otherwise dilutive potential common shares is anti-dilutive and therefore excluded.

The following table presents the calculation of weighted average shares used to calculate basic and diluted net income per share (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Weighted average shares outstanding	124,362	123,214	124,065	122,928
Effect of dilutive potential common shares from:				
Convertible senior notes	1,064	925	1,064	958
Equity awards	4,382	3,657	4,137	3,858
Warrants sold in connection with convertible senior notes	9,569	5,215	8,379	5,691
Weighted average shares used in calculation of diluted net income per share	139,377	133,011	137,645	133,435
Potentially dilutive shares excluded from calculation due to anti-dilutive effect	1,684	3,348	1,799	2,943

2. Balance Sheet Account Details

Short-Term Investments

The following is a summary of short-term investments (in thousands):

	June 30, 2013				December 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:								
Debt securities in government sponsored entities	$ 56,905	$ 14	$ (95)	$ 56,824	$ 314,638	$ 251	$ (16)	$ 314,873
Corporate debt securities	259,071	299	(447)	258,923	471,989	1,059	(187)	472,861
U.S. Treasury securities	30,077	32	(4)	30,105	128,256	233	—	128,489
Total available-for-sale securities	$ 346,053	$ 345	$ (546)	$ 345,852	$ 914,883	$ 1,543	$ (203)	$ 916,223

As of June 30, 2013, the Company had 90 available-for-sale securities in a gross unrealized loss position, all of which had been in such position for less than 12 months. There were no impairments considered other-than-temporary as it is more likely than not the Company will hold the securities until maturity or until the cost basis is recovered.

The following table shows the fair values and the gross unrealized losses of the Company's available-for-sale securities that were in an unrealized loss position as of June 30, 2013 and December 30, 2012, aggregated by investment category (in thousands):

	June 30, 2013		December 30, 2012	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Debt securities in government sponsored entities	$ 32,494	$ (95)	$ 28,176	$ (16)
Corporate debt securities	116,149	(447)	130,224	(187)
U.S. Treasury securities	9,809	(4)	—	—
Total	$ 158,452	$ (546)	$ 158,400	$ (203)

Realized gains and losses are determined based on the specific identification method and are reported in interest income. Gross realized gains and losses on sales of available-for-sale securities were immaterial for all periods presented.

Contractual maturities of available-for-sale debt securities as of June 30, 2013 were as follows (in thousands):

	Estimated Fair Value
Due within one year	$ 117,083
After one but within five years	228,769
Total	$ 345,852

Cost-Method Investments

As of June 30, 2013 and December 30, 2012, the aggregate carrying amounts of the Company's cost-method investments in non-publicly traded companies were $55.4 million and $56.3 million, respectively, which were included in other assets on the consolidated balance sheets. During the three months ended March 31, 2013, the Company sold a cost-method investment and recognized a $6.1 million gain. The Company assesses all cost-method investments for impairment quarterly. No impairment loss was recorded during the three and six months ended June 30, 2013 or July 1, 2012. The Company does not reassess the fair value of cost-method investments if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investments.

Headquarter Facility Exit Obligation

Changes in the Company's facility exit obligation related to its former headquarters lease during the six months ended June 30, 2013 are as follows (in thousands):

Balance as of December 30, 2012	$	45,352
Adjustment to facility exit obligation		(1,948)
Accretion of interest expense		1,198
Cash settlements		(5,251)
Balance as of June 30, 2013	$	39,351

Facility exit obligation liability recorded upon vacating the Company's former headquarters was adjusted for updates to assumptions based on terms of the facility sublease agreements entered during the six months ended June 30, 2013.

Warranties

Changes in the Company's reserve for product warranties during the six months ended June 30, 2013 are as follows (in thousands):

Balance as of December 30, 2012	$	10,136
Additions charged to cost of revenue		10,298
Repairs and replacements		(9,608)
Balance as of June 30, 2013	$	10,826

Inventory

Inventory consists of the following (in thousands):

	June 30, 2013	December 30, 2012
Raw materials	$ 60,874	$ 61,665
Work in process	80,461	75,675
Finished goods	26,735	21,378
Total inventory	$ 168,070	$ 158,718

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	June 30, 2013	December 30, 2012
Accrued compensation expenses	$ 56,278	$ 59,864
Deferred revenue, current portion	49,918	55,817
Accrued taxes payable	30,072	23,021
Customer deposits	22,030	13,765
Reserve for product warranties	10,826	10,136
Facility exit obligation, current portion	6,993	8,063
Acquisition related contingent liability, current portion	6,464	9,490
Accrued royalties	2,960	2,836
Unsettled short-term investment purchase	—	9,154
Other	13,247	9,731
Total accrued liabilities	$ 198,788	$ 201,877

3. Acquisitions

Current Year Acquisitions

On February 21, 2013, the Company acquired all of the outstanding capital stock of Verinata Health, Inc., a leading provider of non-invasive tests for the early identification of fetal chromosomal abnormalities. With this acquisition, the Company strengthened its reproductive health product portfolio by gaining access to Verinata's verifi® non-invasive prenatal test (NIPT) as well as what management believes to be the most comprehensive intellectual property portfolio in the NIPT industry.

The contractual price for the acquisition was $350.0 million, plus potential cash payments of up to $100.0 million based on the achievement of certain regulatory and revenue milestones. The aggregate purchase price was determined to be $396.3 million, including total cash payment of $339.3 million, $56.2 million in fair value of the contingent milestone payments, $0.3 million in fair value of converted stock options attributed to pre-combination services, and $0.5 million in loss realized on settlement of preexisting relationships. In connection with the transaction, the Company deposited into escrow $30.0 million of consideration otherwise payable to shareholders of Verinata. This amount is included in the aggregate consideration and will be held in escrow to cover indemnification claims under the acquisition agreement, if any, for a period of 1.5 years following the completion of the acquisition. During the six months ended June 30, 2013, transaction costs of $3.2 million were expensed as incurred in acquisition related (gain) expense, net.

In conjunction with the acquisition, the Company assumed the Verinata Health, Inc. 2008 Stock Plan and converted, as of the acquisition date, the unvested stock options outstanding under the plan, all of which were in the money, into 0.4 million unvested stock options to purchase Illumina's common stock, retaining the original vesting schedules. The fair value of all converted options was $18.9 million, $0.3 million of which was attributed to the pre-combination service period and was included in the calculation of purchase price. The remaining fair value will be recognized over the awards' remaining vesting periods subsequent to the acquisition. The weighted-average acquisition-date fair value of the converted options was determined using the Black-Scholes option pricing model with the following assumptions: (i) market price of $48.36 per share, which was the closing price of Illumina's common stock on the acquisition date; (ii) weighted average expected term of 2.3 years; (iii) weighted average risk-free interest rate of 0.32%; (iv) weighted average annualized volatility of 42%; and (v) no dividend yield. The weighted average acquisition-date fair value per share of the assumed stock options was $42.63.

An initial liability of $56.2 million was recorded for an estimate of the acquisition date fair value of the contingent consideration. Any change in the fair value of the contingent milestone consideration subsequent to the acquisition date was and will be recognized in the statements of operations. The fair value of the regulatory milestone payments was measured by the probability-weighted discounted cash flows and the fair value of the revenue milestone payments was measured using a risk-neutral option pricing model, which captures the present value of the expected payment and the probability of reaching the revenue targets. Key assumptions used in the fair value assessments included discount rates ranging from 6% to 20%, volatility of 50%, risk-free rates of 0.26%, revenue projections, and the probability of achieving regulatory milestones. This fair value

measurement of the contingent consideration is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value.

As of June 30, 2013, the preliminary allocation of the purchase price to the assets acquired and liabilities assumed on the acquisition date was as follows (in thousands):

	Allocation of purchase price
Cash and cash equivalents	$ 9,151
Accounts receivable	2,801
Inventory	1,110
Prepaid expenses and other current assets	979
Property and equipment	12,239
Other assets	978
Intangible assets	176,490
Goodwill	221,214
Accounts payable	(2,539)
Accrued liabilities	(3,803)
Lease financing obligation	(9,416)
Deferred tax liability	(12,937)
Total purchase price	$ 396,267

The Company continues to obtain information to complete its valuation of assets and liabilities acquired from Verinata, including the valuation of certain deferred tax benefits during the measurement period. During the three months ended June 30, 2013, the Company recorded a net reduction to goodwill of $7.9 million, which primarily related to a $4.9 million decrease in the assessed fair value of the contingent milestone payments which was included in the purchase price, a $6.3 million increase to the assessed values of intangible assets, and the related deferred tax liability adjustments of $2.4 million.

In conjunction with the acquisition, the Company assumed Verinata's building lease, for which Verinata was considered the accounting owner of the leased building and as such, recorded the fair value of the building as an asset as of the acquisition date. The building is depreciated over a useful life of 30 years. The Company also recorded the related lease financing obligation as a liability assumed, representing the present value of all remaining building lease payments and a balloon payment at the end of the lease for the value of the building to be transferred to the landlord. As of the acquisition date, total remaining payments under the lease was $5.7 million and the remaining lease term was 4.7 years, with two three-year renewal options.

The following table summarizes the fair value of identifiable intangible assets acquired (amounts in thousands):

	Weighted Average Useful Lives (in years)	Fair Value
Developed technology	13	$ 170,200
Customer relationships	5	4,690
Trade name	2	1,600
Total intangible assets acquired, excluding goodwill		$ 176,490

The fair value of the developed technology and trade name was estimated using an income approach. Under the income approach, an intangible asset's fair value is equal to the present value of future economic benefits to be derived from ownership of the asset. The estimated fair value was developed by discounting future net cash flows to their present value at market-based rates of return. The fair value of the customer relationships was developed using a cost approach by estimating the time and personnel effort in constructing the customer base. The useful life of the intangible assets for amortization purposes was determined by considering the period of expected cash flows used to measure the fair value of the intangible assets adjusted as appropriate for the entity-specific factors including legal, regulatory, contractual, competitive economic or other factors that may limit the useful life of intangible assets.

The excess of the fair value of the total consideration over the estimated fair value of the net assets was recorded as goodwill, which was primarily attributable to the synergies expected from combining the technologies of Illumina with those of Verinata, including complementary products that will enhance the Company's overall product portfolio, and the value of the workforce that became our employees following the closing of the acquisitions. The goodwill recognized is not expected to be deductible for income tax purposes.

In addition, the Company completed another acquisition of a development-stage company during the three months ended March 31, 2013. As a result of this transaction, the Company recorded goodwill of $6.0 million and developed technology of $15.6 million with a useful life of five years.

Pro Forma Information

The following unaudited pro forma information presents the consolidated results of operations of Illumina and Verinata as if the acquisition had occurred at the beginning of each period presented, with pro forma adjustments to give effect to inter-company transactions to be eliminated, amortization of intangible assets, share-based compensation, and transaction costs directly associated with the acquisition (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Net revenues	$ 346,094	$ 279,594	$ 677,088	$ 550,661
Net income	$ 35,877	$ 12,597	$ 4,659	$ 27,475
Net income per share-basic	$ 0.29	$ 0.10	$ 0.04	$ 0.22
Net income per share-diluted	$ 0.26	$ 0.09	$ 0.03	$ 0.21

These unaudited pro forma condensed consolidated financial results have been prepared for illustrative purposes only and do not purport to be indicative of the results of operations that actually would have resulted had the acquisition occurred on the first day of the earliest period presented, or of the future results of the consolidated entities. The unaudited pro forma condensed consolidated financial information does not reflect any operating efficiencies and cost savings that may be realized from the integration of the acquisition.

Prior Year Acquisitions

On September 19, 2012, the Company announced the acquisition of BlueGnome Ltd., a provider of cytogenetics and in vitro fertilization screening products. Total consideration for the acquisition was $95.5 million, which included $88.0 million in initial cash payments and $7.5 million in fair value of contingent cash consideration of up to $20.0 million based on the achievement of certain revenue based milestones by December 28, 2014.

The Company estimated the fair value of contingent cash consideration using a probability weighted discounted cash flow approach, a Level 3 measurement based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value. The Company used a discount rate of 30% in the assessment of the acquisition date fair value for the contingent cash consideration. Future changes in significant inputs such as the discount rate and estimated probabilities of milestone achievements could have a significant effect on the fair value of the contingent consideration.

In conjunction with the purchase transaction, the Company also agreed to pay up to $20.0 million to BlueGnome shareholders contingent upon the retention of certain key employees and certain other criteria. Such contingent payments will be recognized as contingent compensation expense over the retention period through December 28, 2014.

The Company allocated approximately $11.2 million of the total consideration to tangible assets, net of liabilities, and $48.9 million to identified intangible assets, including additional developed technologies of $25.0 million, customer relationships of $16.8 million, and a trade name of $7.1 million with average useful lives of seven, five, and ten years, respectively. The Company also recorded a $12.1 million deferred tax liability to reflect the tax impact of certain identified intangible assets, the amortization expenses for which are not tax deductible. The Company recorded the excess consideration of approximately $47.5 million as goodwill.

On January 10, 2011, the Company acquired Epicentre Technologies Corporation, a provider of nucleic acid sample preparation reagents and specialty enzymes used in sequencing and microarray applications. Total consideration for the

acquisition was $71.4 million, which included $59.4 million in net cash payments made at closing, $4.6 million in the fair value of contingent consideration settled in stock that is subject to forfeiture if certain non-revenue based milestones are not met, and $7.4 million in the fair value of contingent cash consideration of up to $15.0 million based on the achievement of certain revenue based milestones by January 10, 2013.

The Company estimated the fair value of contingent stock consideration based on the closing price of its common stock as of the acquisition date. Approximately 0.2 million shares of common stock were issued to Epicentre shareholders in connection with the acquisition, which shares are subject to forfeiture if certain non-revenue-based milestones are not met. One third of these shares issued with an assessed fair value of $4.6 million were determined to be part of the purchase price. The remaining shares with an assessed fair value of $10.1 million were determined to be compensation for post-acquisition service, the cost of which was recognized as contingent compensation expense over a period of two years in research and development expense or selling, general and administrative expense.

The Company estimated the fair value of contingent cash consideration using a probability weighted discounted cash flow approach, a Level 3 measurement based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value. The Company used a discount rate of 21% in the assessment of the acquisition date fair value for the contingent cash consideration.

The Company allocated $0.9 million of the total consideration to tangible assets, net of liabilities, and $26.9 million to identified intangible assets, including additional developed technologies of $23.3 million, a trade name of $2.5 million, and customer relationships of $1.1 million, with weighted average useful lives of approximately nine, ten, and three years, respectively. The Company recorded the excess consideration of $43.6 million as goodwill.

Summary of Contingent Compensation Expenses

Contingent compensation expense recorded as a result of all acquisitions consists of the following (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Contingent compensation, included in research and development expense	$ (163)	$ 732	$ 326	$ 1,464
Contingent compensation, included in selling, general and administrative expense	2,425	(516)	5,354	1,844
Total contingent compensation expense	$ 2,262	$ 216	$ 5,680	$ 3,308

4. Fair Value Measurements

The following table presents the Company's hierarchy for assets and liabilities measured at fair value on a recurring basis as of June 30, 2013 and December 30, 2012 (in thousands):

	June 30, 2013				December 30, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Money market funds (cash equivalents)	$ 594,536	$ —	$ —	$ 594,536	$ 252,126	$ —	$ —	$ 252,126
Debt securities in government-sponsored entities	—	56,824	—	56,824	—	314,873	—	314,873
Corporate debt securities	—	258,923	—	258,923	—	472,861	—	472,861
U.S. Treasury securities	30,105	—	—	30,105	128,489	—	—	128,489
Deferred compensation plan assets	—	15,926	—	15,926	—	13,626	—	13,626
Total assets measured at fair value	$ 624,641	$ 331,673	$ —	$ 956,314	$ 380,615	$ 801,360	$ —	$ 1,181,975
Liabilities:								
Acquisition related contingent consideration liabilities	$ —	$ —	$ 60,102	$ 60,102	$ —	$ —	$ 12,519	$ 12,519
Deferred compensation liability	—	13,834	—	13,834	—	12,071	—	12,071
Total liabilities measured at fair value	$ —	$ 13,834	$ 60,102	$ 73,936	$ —	$ 12,071	$ 12,519	$ 24,590

The Company holds available-for-sale securities that consist of highly liquid, investment grade debt securities. The Company determines the fair value of its debt security holdings based on pricing from a service provider. The service provider values the securities based on "consensus pricing," using market prices from a variety of industry-standard independent data providers. Such market prices may be quoted prices in active markets for identical assets or liabilities (Level 1 inputs) or pricing determined using inputs that are observable either directly or indirectly (Level 2 inputs), such as quoted prices for similar assets or liabilities, yield curve, volatility factors, credit spreads, default rates, loss severity, current market and contractual prices for the underlying instruments or debt, broker and dealer quotes, as well as other relevant economic measures. The Company's deferred compensation plan assets consist primarily of mutual funds. The Company performs certain procedures to corroborate the fair value of its holdings, including comparing prices obtained from service providers to prices obtained from other reliable sources.

The Company reassesses the fair value of contingent consideration to be settled in cash related to acquisitions on a quarterly basis using the income approach. This is a Level 3 measurement. Significant assumptions used in the measurement include probabilities of achieving the remaining milestones and the discount rates, which depend on the milestone risk profiles. The changes in the fair value of the contingent considerations during the three and six months ended June 30, 2013 were due to changes in the estimated payments and a shorter discounting period.

Changes in estimated fair value of contingent consideration liabilities during the six months ended June 30, 2013 are as follows (in thousands):

	Contingent Consideration Liability (Level 3 Measurement)
Balance as of December 30, 2012	$ 12,519
Additional liability recorded as a result of current period acquisitions	57,284
Change in estimated fair value, recorded in acquisition related (gain) expense, net	(5,262)
Cash settlements	(4,439)
Balance as of June 30, 2013	$ 60,102

5. Convertible Senior Notes

0.25% Convertible Senior Notes due 2016

In 2011, the Company issued $920.0 million aggregate principal amount of 0.25% convertible senior notes due 2016 (2016 Notes) in an offering conducted in accordance with Rule 144A under the Securities Act of 1933, as amended. The 2016 Notes were issued at 98.25% of par value. Debt issuance costs of approximately $0.4 million were primarily comprised of legal, accounting, and other professional fees, the majority of which were recorded in other noncurrent assets and are being amortized to interest expense over the five-year term of the 2016 Notes.

The 2016 Notes will be convertible into cash, shares of common stock, or a combination of cash and shares of common stock, at the Company's election, based on an initial conversion rate, subject to adjustment, of 11.9687 shares per $1,000 principal amount of the 2016 Notes (which represents an initial conversion price of approximately $83.55 per share), only in the following circumstances and to the following extent: (1) during the five business-day period after any 10 consecutive trading day period (the "measurement period") in which the trading price per 2016 Note for each day of such measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such day; (2) during any calendar quarter (and only during that quarter) after the calendar quarter ending March 31, 2011, if the last reported sale price of the Company's common stock for 20 or more trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; (3) upon the occurrence of specified events described in the indenture for the 2016 Notes; and (4) at any time on or after December 15, 2015 through the second scheduled trading day immediately preceding the maturity date.

As noted in the indenture for the 2016 Notes, it is the Company's intent and policy to settle conversions through combination settlement, which essentially involves repayment of an amount of cash equal to the "principal portion" and delivery of the "share amount" in excess of the conversion value over the principal portion in shares of common stock. In general, for each $1,000 in principal, the "principal portion" of cash upon settlement is defined as the lesser of $1,000, and the conversion value during the 20-day observation period as described in the indenture for the 2016 Notes. The conversion value is the sum of the daily conversion value which is the product of the effective conversion rate divided by 20 days and the daily volume weighted average price (VWAP) of the Company's common stock. The "share amount" is the cumulative "daily share amount" during the observation period, which is calculated by dividing the daily VWAP into the difference between the daily conversion value (i.e., conversion rate x daily VWAP) and $1,000.

The Company pays 0.25% interest per annum on the principal amount of the 2016 Notes semiannually in arrears in cash on March 15 and September 15 of each year. The 2016 Notes mature on March 15, 2016. If a designated event, as defined in the indenture for the 2016 Notes, such as an acquisition, merger, or liquidation, occurs prior to the maturity date, subject to certain limitations, holders of the 2016 Notes may require the Company to repurchase all or a portion of their 2016 Notes for cash at a repurchase price equal to 100% of the principal amount of the 2016 Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the repurchase date.

The Company accounts separately for the liability and equity components of the 2016 Notes in accordance with authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. The guidance requires the carrying amount of the liability component to be estimated by measuring the fair value of a similar liability that does not have an associated conversion feature. Because the Company has no outstanding non-convertible public debt, the Company determined that senior, unsecured corporate bonds traded on the market represent a similar liability to the convertible senior

notes without the conversion option. Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, the Company estimated the implied interest rate of its 2016 Notes to be 4.5%, assuming no conversion option. Assumptions used in the estimate represent what market participants would use in pricing the liability component, including market interest rates, credit standing, and yield curves, all of which are defined as Level 2 observable inputs. The estimated implied interest rate was applied to the 2016 Notes, which resulted in a fair value of the liability component of $748.5 million upon issuance, calculated as the present value of implied future payments based on the $920.0 million aggregate principal amount. The $155.4 million difference between the cash proceeds of $903.9 million and the estimated fair value of the liability component was recorded in additional paid-in capital as the 2016 Notes are not considered currently redeemable at the balance sheet date.

As a policy election under applicable guidance related to the calculation of diluted net income per share, the Company elected the combination settlement method as its stated settlement policy and applied the treasury stock method in the calculation of dilutive impact of the 2016 Notes. During the three and six months ended June 30, 2013 and July 1, 2012, the 2016 Notes were not convertible and therefore not included in the calculation of weighted average shares outstanding. If the 2016 Notes were converted as of June 30, 2013, the if-converted value would not exceed the principal amount.

0.625% Convertible Senior Notes due 2014

In 2007, the Company issued $400.0 million principal amount of 0.625% convertible senior notes due 2014 (2014 Notes). The Company pays 0.625% interest per annum on the principal amount of the 2014 Notes semi-annually in arrears in cash on February 15 and August 15 of each year. The 2014 Notes mature on February 15, 2014. The effective interest rate of the liability component was estimated to be 8.3%.

The Company entered into hedge transactions concurrently with the issuance of the 2014 Notes under which the Company is entitled to purchase up to approximately 18.3 million shares of the Company's common stock at a strike price of approximately $21.83 per share, subject to adjustment. The convertible note hedge transactions had the effect of reducing dilution to the Company's stockholders upon conversion of the 2014 Notes. Also concurrently with the issuance of the 2014 Notes, the Company sold to the hedge counterparties warrants exercisable, on a cashless basis, for up to approximately 18.3 million shares of the Company's common stock at a strike price of $31.435 per share, subject to adjustment. The proceeds from these warrants partially offset the cost to the Company of the convertible note hedge transactions.

The 2014 Notes became convertible into cash and shares of the Company's common stock in various prior periods and became convertible again from April 1, 2012 through, and including, September 30, 2013. In all cases of conversions of the 2014 Notes, the principal amount converted was repaid with cash and the excess of the conversion value over the principal amount was paid in shares of common stock. The equity dilution resulting from the issuance of common stock related to the conversion of the 2014 Notes was offset by repurchase of the same amount of shares under the convertible note hedge transactions, which were automatically exercised in accordance with their terms at the time of each conversion. As of June 30, 2013, there remained in place the balance of the convertible note hedge transactions with respect to approximately $31.1 million principal amount of the 2014 Notes, which are convertible for up to approximately 1.4 million shares of the Company's common stock. The warrants were not affected by the early conversions of the 2014 Notes and, as a result, warrants covering up to approximately 18.3 million shares of common stock remained outstanding as of June 30, 2013. If the remaining 2014 Notes were converted as of June 30, 2013, the if-converted value would exceed the principal amount by $73.7 million.

As a result of conversions during the three months ended June 30, 2013, the Company recorded losses on extinguishment of debt calculated as the difference between the estimated fair value of the debt and the carrying value of the notes as of the settlement dates. To measure the fair value of the converted notes as of the settlement dates, the applicable interest rates were estimated using Level 2 observable inputs and applied to the converted notes using the same methodology utilized for the issuance date valuation.

The following table summarizes information about the conversions of the 2014 Notes during the three months ended June 30, 2013 (in thousands, except percentages):

Cash paid for principal of notes converted	$	9,000
Conversion value over principal amount paid in shares of common stock	$	16,982
Number of shares of common stock issued upon conversion		265
Loss on extinguishment of debt	$	511
Effective interest rates used to measure fair value of converted notes upon conversion		0.7% - 0.8%

The following table summarizes information about the equity and liability components of the 2014 Notes and 2016 Notes (dollars in thousands). The fair values of the respective notes outstanding were measured based on quoted market prices.

	June 30, 2013		December 30, 2012	
	2016 Notes	2014 Notes	2016 Notes	2014 Notes
Principal amount of convertible notes outstanding	$ 920,000	$ 31,125	$ 920,000	$ 40,125
Unamortized discount of liability component	(97,831)	(1,394)	(114,594)	(3,158)
Net carrying amount of liability component	822,169	29,731	805,406	36,967
Less: current portion	—	(29,731)	—	(36,967)
Long-term debt	$ 822,169	$ —	$ 805,406	$ —
Conversion option subject to cash settlement	—	$ 1,394	—	$ 3,158
Carrying value of equity component, net of debt issuance cost	$ 155,366	$ 118,364	$ 155,366	$ 116,600
Fair value of outstanding notes (Level 2 measurement)	$ 1,003,122	$ 108,122	$ 892,446	$ 101,470
Remaining amortization period of discount on the liability component	2.7 years	0.6 years	3.2 years	1.1 years

Contractual coupon interest expense and accretion of discount on the liability component recorded for the convertible senior notes during the three and six months ended June 30, 2013 and July 1, 2012, respectively, were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Contractual coupon interest expense	$ 611	$ 637	$ 1,247	$ 1,197
Accretion of discount on the liability component	$ 9,023	$ 8,699	$ 18,032	$ 17,298

6. Share-based Compensation Expense

Share-based compensation expense for all stock awards consists of the following (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Cost of product revenue	$ 1,444	$ 1,844	$ 2,886	$ 3,656
Cost of service and other revenue	157	168	311	185
Research and development	8,954	7,687	16,960	15,114
Selling, general and administrative	13,897	14,348	28,514	28,121
Share-based compensation expense before taxes	24,452	24,047	48,671	47,076
Related income tax benefits	(7,499)	(8,135)	(15,064)	(15,959)
Share-based compensation expense, net of taxes	$ 16,953	$ 15,912	$ 33,607	$ 31,117

The assumptions used for the specified reporting periods and the resulting estimates of weighted average fair value per share of options granted and for stock purchase rights granted under the ESPP for the six months ended June 30, 2013 are as follows:

	Stock Options	Employee Stock Purchase Rights
Risk-free interest rate	0.14 - 1.86%	0.11 - 0.15%
Expected volatility	30 - 44%	31%
Expected term	0.8 - 9.4 years	0.5 - 1.0 year
Expected dividends	—	—
Weighted average fair value per share	$ 40.66	$ 13.11

As of June 30, 2013, approximately $188.4 million of unrecognized compensation cost related to stock options, restricted stock, performance stock, and ESPP shares is expected to be recognized over a weighted average period of approximately 2.2 years.

7. Stockholders' Equity

The Company's 2005 Stock and Incentive Plan (the 2005 Stock Plan), 2005 Solexa Equity Incentive Plan (the 2005 Solexa Equity Plan), the Verinata Health, Inc. 2008 Stock Plan (the 2008 Verinata Stock Plan) and the New Hire Stock and Incentive Plan allow for the issuance of stock options, restricted stock units and awards, and performance stock units. During the three months ended June 30, 2013, the stockholders ratified an amendment to increase the maximum number of shares of common stock authorized for issuance under the 2005 Stock Plan by 5.0 million shares. As of June 30, 2013, approximately 7.8 million shares remained available for future grants under the 2005 Stock Plan, the 2005 Solexa Equity Plan, and the 2008 Verinata Health Stock Plan. There is no set number of shares reserved for issuance under the New Hire Stock and Incentive Plan.

Stock Options

The Company's stock option activity under all stock option plans during the six months ended June 30, 2013 is as follows:

	Options (in thousands)	Weighted Average Exercise Price per Share
Outstanding as of December 30, 2012	8,351	$ 32.10
Granted	512	14.74
Exercised	(1,413)	26.23
Cancelled	(113)	47.79
Outstanding as of June 30, 2013	7,337	$ 31.78

At June 30, 2013, outstanding options to purchase approximately 5.9 million shares were exercisable with a weighted average exercise price per share of $30.41. Grant activity during the current year includes the conversion of options to purchase Verinata common stock into options to purchase Illumina's common stock in connection with the acquisition of Verinata.

Restricted Stock

A summary of the Company's restricted stock activity and related information for the six months ended June 30, 2013 is as follows:

	Restricted Stock (in thousands)	Weighted Average Grant-Date Fair Value per Share
Outstanding at December 30, 2012	4,125	$ 46.43
Awarded	575	54.86
Vested	(549)	47.81
Cancelled	(183)	48.41
Outstanding as of June 30, 2013	3,968	$ 47.37

Performance Stock Units

The Company issues performance stock units for which the number of shares issuable will range from 50% and 150% of the shares approved in the award, based on the Company's performance relative to specified earnings per share targets at the end of a three-year performance period. A summary of the Company's performance stock unit activity and related information for the six months ended June 30, 2013 is as follows:

	Performance Stock (in thousands)	Weighted Average Grant-Date Fair Value per Share
Outstanding at December 30, 2012	587	$ 49.64
Awarded	471	50.67
Cancelled	(70)	50.42
Outstanding as of June 30, 2013	988	$ 50.08

Employee Stock Purchase Plan

The price at which common stock is purchased under the ESPP is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. During the six months ended June 30, 2013, approximately 0.2 million shares were issued under the ESPP. As of June 30, 2013, there were approximately 15.2 million shares available for issuance under the ESPP.

Warrants

As of June 30, 2013, warrants exercisable, on a cashless basis, for up to approximately 18.3 million shares of common stock were outstanding with an exercise price of $31.435. These warrants were sold to counterparties to the Company's convertible note hedge transactions in connection with the offering of the 2014 Notes, with the proceeds of such warrants used by the Company to partially offset the cost of such hedging transactions. All outstanding warrants expire in equal installments during the 40 consecutive scheduled trading days beginning on May 16, 2014.

On July 18, 2013, the Company settled with a hedging counterparty outstanding warrants to purchase approximately 3.0 million shares of the Company's common stock for $125.0 million in cash.

Share Repurchases

On April 18, 2012, the Company's Board of Directors authorized a $250 million stock repurchase program to be effected via a combination of Rule 10b5-1 and discretionary share repurchase programs. During the three and six months ended June 30, 2013, the Company repurchased approximately 0.4 million and 0.9 million shares for $25.0 million and $50.0 million, respectively.

Stockholder Rights Plan

On January 25, 2012, the Company's Board of Directors declared a dividend of one preferred share purchase right (Right) for each outstanding share of the Company's common stock. During the six months ended June 30, 2013, the expiration date was amended to be March 27, 2013 and the Rights expired accordingly.

8. Income Taxes

The Company's effective tax rate may vary from the U.S. statutory tax rate due to the change in the mix of earnings in tax jurisdictions with different statutory rates, benefits related to tax credits, and the tax impact of non-deductible expenses and other permanent differences between income before income taxes and taxable income. The effective tax rates for the three and six months ended June 30, 2013 were 27.3% and (639.2)%, respectively. For the three and six months ended June 30, 2013, the variance from the U.S. federal statutory rate of 35% was primarily attributable to the tax treatment of the Syntrix legal contingency, which was recorded as a discrete item and is nondeductible for tax purposes until paid. The retroactive reinstatement of the 2012 federal research and development credit as part of the American Taxpayer Relief Act of 2012 that was enacted on January 2, 2013 increased the benefit from income taxes in Q1 2013 by approximately $2.0 million.

In the second quarter of 2013 the Internal Revenue Service began an audit of the Company's corporate income tax return filed for fiscal year 2011. At this time the audit is in the initial information gathering stage.

9. Legal Proceedings

The Company is involved in various lawsuits and claims arising in the ordinary course of business, including actions with respect to intellectual property, employment, and contractual matters. In connection with these matters, the Company assesses, on a regular basis, the probability and range of possible loss based on the developments in these matters. A liability is recorded in the financial statements if it is believed to be probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Because litigation is inherently unpredictable and unfavorable results could occur, assessing contingencies is highly subjective and requires judgments about future events. The Company regularly reviews outstanding legal matters to determine the adequacy of the liabilities accrued and related disclosures. The amount of ultimate loss may differ from these estimates. Each matter presents its own unique circumstances, and prior litigation does not necessarily provide a reliable basis on which to predict the outcome, or range of outcomes, in any individual proceeding. Because of the uncertainties related to the occurrence, amount, and range of loss on any pending litigation or claim, the Company is currently unable to predict their ultimate outcome, and, with respect to any pending litigation or claim where no liability has been accrued, to make a meaningful estimate of the reasonably possible loss or range of loss that could result from an unfavorable outcome. In the event that opposing litigants in outstanding litigations or claims ultimately succeed at trial and any subsequent appeals on their claims, any potential loss or charges in excess of any established accruals, individually or in the aggregate, could have a material adverse effect on the Company's business, financial condition, results of operations, and/or cash flows in the period in which the unfavorable outcome occurs or becomes probable, and potentially in future periods.

On November 24, 2010, Syntrix Biosystems, Inc. filed suit against the Company in the United States District Court for the Western District of Washington at Tacoma (Case No. C10-5870-BHS) alleging that the Company willfully infringed U.S. Patent No. 6,951,682 by selling its BeadChip array products, and that the Company misappropriated Syntrix's trade secrets. In November and December 2012, the Company filed motions for summary judgment that the patent is not infringed and is invalid, and that Syntrix's trade secrets claims are barred by various statutes of limitation. Syntrix filed a motion for summary judgment that the patent is valid. On January 30, 2013, the court granted the Company's motion for summary judgment on Syntrix's trade secret claims, and dismissed those claims from the case. The court denied Syntrix's motion for summary judgment on validity, and denied the Company's motion for summary judgment for non-infringement and invalidity. On March 14, 2013, a jury reached a verdict in favor of Syntrix, finding that Illumina's BeadChip kits infringe the Syntrix patent. During trial, the court dismissed Syntrix's claim that the alleged infringement was willful. On July 1, 2013, the Court entered a final amended judgment for $115.1M, in accordance with the jury verdict, including supplemental damages and prejudgment interest. In addition, the court awarded Syntrix an ongoing royalty of 8% for accused sales from March 15, 2013 until the patent expires on September 16, 2019.

The Company believes strongly that it did not infringe the Syntrix patent and that the patent is invalid. The Company, therefore, disagrees with the jury verdict and contends that the verdict is not supported by the law or facts. Accordingly, the Company filed on July 17, 2013, its post-trial motion asking the District Court to vacate the amended judgment and to enter judgment in the Company's favor or, alternatively, grant a new trial. In addition, if the Company's post-trial motion is unsuccessful, the Company plans to file an appeal to the Court of Appeals for the Federal Circuit challenging the adverse verdict.

As a result of the amended judgment, the Company has recorded a legal contingency accrual of $122.7 million as of June 30, 2013, which includes the damages and prejudgment interest awarded to Syntrix, estimated additional damages through June 30, 2013, and an estimate of interest accrued on the damages subsequent to June 19, 2013. This resulted in legal contingency charges of $15.8 million recorded in the three months ended June 30, 2013, $8.7 million of which was related to damages through the jury verdict date, and was recorded within operating expenses as a separate line item. The remainder was related to the royalty amount subsequent to the verdict date, and was recorded to cost of sales. For the six months ended June 30, 2013, such charges totaled $122.7 million, $114.6 million of which was recorded within operating expenses, and the remainder was recorded to cost of sales. In addition, the Company will continue to accrue ongoing royalties on future sales at the royalty rate stated in the Amended Judgment. The Company may be required to secure the amount of the judgment during the appeals process.

10. Subsequent Event

On July 1, 2013, the Company acquired Advanced Liquid Logic Inc., a leading provider of liquid handling solutions, for up to $96.0 million in cash.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is provided in addition to the accompanying condensed consolidated financial statements and notes to assist readers in understanding our results of operations, financial condition, and cash flows. This MD&A is organized as follows:

- *Business Overview and Outlook*. High level discussion of our operating results and significant known trends that affect our business.
- *Results of Operations*. Detailed discussion of our revenues and expenses.
- *Liquidity and Capital Resources*. Discussion of key aspects of our statements of cash flows, changes in our financial position, and our financial commitments.
- *Off-Balance Sheet Arrangements*. We have no significant off-balance sheet arrangements.
- *Critical Accounting Policies and Estimates*. Discussion of significant changes since our most recent Annual Report on Form 10-K that we believe are important to understanding the assumptions and judgments underlying our financial statements.

This MD&A discussion contains forward-looking statements that involve risks and uncertainties. Please see "Consideration Regarding Forward-Looking Statements" at the end of this MD&A section for additional factors relating to such statements. This MD&A should be read in conjunction with our condensed consolidated financial statements and accompanying notes included in this report and our Annual Report on Form 10-K for the fiscal year ended December 30, 2012. Operating results are not necessarily indicative of results that may occur in future periods.

Business Overview and Outlook

This overview and outlook provides a high level discussion of our operating results and significant known trends that affect our business. We believe that an understanding of these trends is important to understanding our financial results for the periods being reported herein as well as our future financial performance. This summary is not intended to be exhaustive, nor is it intended to be a substitute for the detailed discussion and analysis provided elsewhere in this Quarterly Report on Form 10-Q.

About Illumina

We are a leading developer, manufacturer, and marketer of life science tools and integrated systems for the analysis of genetic variation and function. Using our proprietary technologies, we provide a comprehensive line of genetic analysis solutions, with products and services that address a broad range of highly interconnected markets, including sequencing, genotyping, gene expression, and genomic-based diagnostics. Our customers include leading genomic research centers, academic institutions, government laboratories, clinical research organizations, and in vitro fertilization clinics, as well as pharmaceutical, biotechnology, agrigenomics, and consumer genomics companies.

Our broad portfolio of instruments, consumables, and analysis tools are designed to simplify and accelerate genetic analysis. This portfolio addresses the full range of genomic complexity, throughput, and price points, enabling researchers to select the best solution for their scientific challenge. These systems can be used to efficiently perform a range of nucleic acid (DNA, RNA) analyses on large numbers of samples. For more focused studies, our array-based solutions provide ideal tools to perform genome-wide association studies (GWAS) involving single-nucleotide polymorphism (SNP) genotyping and copy number variation (CNV) analyses, as well as gene expression profiling and other DNA, RNA, and protein studies.

In 2012 and early 2013, we took steps to support our goal of becoming a leader in the reproductive health market by acquiring Verinata Health, Inc. in February 2013 and BlueGnome Ltd. in September 2012. With the Verinata acquisition, we further strengthened our reproductive health product portfolio by gaining access to Verinata's verifi® non-invasive prenatal test (NIPT), as well as what we believe to be the most comprehensive intellectual property portfolio in the NIPT industry. BlueGnome is a leading provider of solutions for the screening of genetic abnormalities associated with developmental delay, cancer, and infertility, and BlueGnome's offerings enhance our ability to establish integrated solutions in reproductive health and cancer. To further enhance our genetic analysis workflows, in 2011 we acquired Epicentre Technologies Corporation, a leading provider of nucleic acid sample preparation reagents and specialty enzymes for sequencing and microarray applications.

Exhibit 228

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☑ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended September 29, 2013

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to

Commission File Number 001-35406

Illumina, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**33-0804655**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
5200 Illumina Way, San Diego, CA	**92122**
(Address of principal executive offices)	**(Zip Code)**

(858) 202-4500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of October 9, 2013, there were 126,396,050 shares of the registrant's Common Stock outstanding.

ILLUMINA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Revenue:				
Product revenue	$ 318,603	$ 262,418	$ 928,270	$ 776,893
Service and other revenue	38,197	23,456	105,582	62,358
Total revenue	356,800	285,874	1,033,852	839,251
Cost of revenue:				
Cost of product revenue	119,954	75,873	308,082	230,935
Cost of service and other revenue	17,643	10,540	48,732	28,761
Amortization of acquired intangible assets	9,263	3,588	24,397	9,674
Total cost of revenue	146,860	90,001	381,211	269,370
Gross profit	209,940	195,873	652,641	569,881
Operating expense:				
Research and development	70,957	54,056	200,015	174,118
Selling, general and administrative	95,617	69,791	269,391	206,276
Acquisition related (gain) expense, net	(3,942)	(357)	(5,846)	2,460
Unsolicited tender offer related expense	1,326	3,956	13,621	18,742
Headquarter relocation	518	19,475	(232)	23,445
Legal contingencies	—	—	115,369	—
Restructuring	—	138	—	3,434
Total operating expense	164,476	147,059	592,318	428,475
Income from operations	45,464	48,814	60,323	141,406
Other income (expense):				
Interest income	1,267	3,459	3,922	7,370
Interest expense	(9,954)	(9,483)	(29,746)	(28,193)
Cost-method investment related gain	—	—	6,113	—
Other income (expense), net	370	855	(1,667)	(1,878)
Total other expense, net	(8,317)	(5,169)	(21,378)	(22,701)
Income before income taxes	37,147	43,645	38,945	118,705
Provision for (benefit from) for income taxes	5,790	13,897	(5,702)	39,354
Net income	$ 31,357	$ 29,748	$ 44,647	$ 79,351
Net income per basic share	$ 0.25	$ 0.24	$ 0.36	$ 0.65
Net income per diluted share	$ 0.22	$ 0.22	$ 0.32	$ 0.60
Shares used in calculating basic net income per share	125,465	122,930	124,532	122,929
Shares used in calculating diluted net income per share	140,601	132,507	138,630	133,126

See accompanying notes to the condensed consolidated financial statements.

Illumina, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Unless the context requires otherwise, references in this report to "Illumina," "we," "us," the "Company," and "our" refer to Illumina, Inc. and its consolidated subsidiaries.

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. In management's opinion, the accompanying financial statements reflect all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the results for the interim periods presented.

Interim financial results are not necessarily indicative of results anticipated for the full year. These unaudited financial statements should be read in conjunction with the Company's audited financial statements and footnotes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2012, from which the balance sheet information herein was derived.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses, and related disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Fiscal Year

The Company's fiscal year consists of 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, September 30, and December 31. The three and nine months ended September 29, 2013 and September 30, 2012 were both 13 and 39 weeks, respectively.

Revenue Recognition

The Company's revenue is generated primarily from the sale of products and services. Product revenue primarily consists of sales of instrumentation and consumables used in genetic analysis. Service and other revenue primarily consists of revenue received for performing genotyping and sequencing services, instrument service contract sales, and amounts earned under government grants, which are recognized in the period during which the related costs are incurred.

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable, and collectibility is reasonably assured. In instances where final acceptance of the product or system is required, revenue is deferred until all the acceptance criteria have been met. All revenue is recorded net of any discounts.

Revenue from product sales is recognized generally upon transfer of title to the customer, provided that no significant obligations remain and collection of the receivable is reasonably assured. Revenue from instrument service contracts is recognized as the services are rendered, typically evenly over the contract term. Revenue from genotyping and sequencing services is recognized when earned, which is generally at the time the genotyping or sequencing analysis data is made available to the customer or agreed upon milestones are reached.

In order to assess whether the price is fixed or determinable, the Company evaluates whether refund rights exist. If there are refund rights or payment terms based on future performance, the Company defers revenue recognition until the price becomes fixed or determinable. The Company assesses collectibility based on a number of factors, including past transaction history with, and the creditworthiness of, the customer. If the Company determines that collection of a payment is not reasonably assured, revenue recognition is deferred until receipt of payment.

The Company regularly enters into contracts where revenue is derived from multiple deliverables including products or services. These products or services are generally delivered within a short time frame, approximately three to six months, after the contract execution date. Revenue recognition for contracts with multiple deliverables is based on the individual units of accounting determined to exist in the contract. A delivered item is considered a separate unit of accounting when the delivered item has value to the customer on a stand-alone basis. Items are considered to have stand-alone value when they are sold separately by any vendor or when the customer could resell the item on a stand-alone basis. Consideration is allocated at the inception of the contract to all deliverables based on their relative selling price. The relative selling price for each deliverable is determined using vendor specific objective evidence (VSOE) of selling price or third-party evidence of selling price if VSOE does not exist. If neither VSOE nor third-party evidence exists, the Company uses its best estimate of the selling price for the deliverable.

In order to establish VSOE of selling price, the Company must regularly sell the product or service on a standalone basis with a substantial majority priced within a relatively narrow range. VSOE of selling price is usually the midpoint of that range. If there are not a sufficient number of standalone sales and VSOE of selling price cannot be determined, then the Company considers whether third party evidence can be used to establish selling price. Due to the lack of similar products and services sold by other companies within the industry, the Company has rarely established selling price using third-party evidence. If neither VSOE nor third party evidence of selling price exists, the Company determines its best estimate of selling price using average selling prices over a rolling 12-month period coupled with an assessment of current market conditions. If the product or service has no history of sales or if the sales volume is not sufficient, the Company relies upon prices set by the Company's pricing committee adjusted for applicable discounts. The Company recognizes revenue for delivered elements only when it determines there are no uncertainties regarding customer acceptance.

In certain markets, the Company sells products and provides services to customers through distributors that specialize in life science products. In most sales through distributors, the product is delivered directly to customers. In cases where the product is delivered to a distributor, revenue recognition is deferred until acceptance is received from the distributor, and/or the end-user, if required by the applicable sales contract. The terms of sales transactions through distributors are consistent with the terms of direct sales to customers. These transactions are accounted for in accordance with the Company's revenue recognition policy described herein.

Fair Value Measurements

The Company determines the fair value of its assets and liabilities based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The Company uses a fair value hierarchy with three levels of inputs, of which the first two are considered observable and the last unobservable, to measure fair value:

- *Level 1* — Quoted prices in active markets for identical assets or liabilities.
- *Level 2* — Inputs, other than Level 1, that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- *Level 3* — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying amounts of financial instruments such as cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, and accrued liabilities, excluding acquisition related contingent consideration liabilities, approximate the related fair values due to the short-term maturities of these instruments.

Goodwill, Intangible Assets and Other Long-Lived Assets

Goodwill, which has an indefinite useful life, represents the excess of cost over fair value of net assets acquired. The change in the carrying value of goodwill during the nine months ended September 29, 2013 was due to goodwill recorded in connection with acquisitions. Goodwill is reviewed for impairment at least annually during the second quarter, or more frequently if an event occurs indicating the potential for impairment. During its goodwill impairment review, the Company may assess qualitative factors to determine whether it is more likely than not that the fair value of its reporting unit is less than its carrying amount, including goodwill. The qualitative factors include, but are not limited to, macroeconomic conditions, industry and market considerations, and the overall financial performance of the Company. If, after assessing the totality of these qualitative factors, the Company determines that it is not more likely than not that the fair value of its reporting unit is less than its carrying amount, then no additional assessment is deemed necessary. Otherwise, the Company proceeds to perform

the two-step test for goodwill impairment. The first step involves comparing the estimated fair value of the reporting unit with its carrying value, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the Company performs the second step of the goodwill impairment test to determine the amount of loss, which involves comparing the implied fair value of the goodwill to the carrying value of the goodwill. The Company may also elect to bypass the qualitative assessment in a period and elect to proceed to perform the first step of the goodwill impairment test. The Company performed its annual assessment for goodwill impairment in the second quarter of 2013, noting no impairment.

The Company's identifiable intangible assets are typically comprised of acquired core technologies, licensed technologies, customer relationships, and trade names. The cost of identifiable intangible assets with finite lives is generally amortized on a straight-line basis over the assets' respective estimated useful lives.

The Company regularly performs reviews to determine if an event has occurred that may indicate its intangible assets with finite useful lives and other long-lived assets are potentially impaired. If indicators of impairment exist, the Company performs an impairment test to assess the recoverability of the affected assets by determining whether the carrying amount of such assets exceeds the undiscounted expected future cash flows. If the affected assets are not recoverable, the Company estimates the fair value of the assets and records an impairment loss if the carrying value of the assets exceeds the fair value. Factors that may indicate potential impairment include a significant decline in the Company's stock price and market capitalization compared to its net book value, and significant changes in the ability of a particular asset to generate positive cash flows, the Company's strategic business objectives, and the pattern of utilization of a particular asset.

During the three months ended September 29, 2013, the Company decided to discontinue its Eco and NuPCR product lines to better align its product portfolio with its core strategy. As a result, the Company recorded a total impairment charge of $25.2 million in cost of product revenue, $22.9 million of which related to identifiable intangible assets.

Derivatives

The Company is exposed to foreign exchange rate risks in the normal course of business. To manage a portion of the accounting exposure resulting from changes in foreign currency exchange rates, the Company enters into foreign exchange contracts to hedge monetary assets and liabilities that are denominated in currencies other than the U.S. dollar. These foreign exchange contracts are carried at fair value and are not designated as hedging instruments. Changes in the value of the derivative are recognized in other expense, net, along with an offsetting remeasurement gain or loss on the underlying foreign currency denominated assets or liabilities.

As of September 29, 2013, the Company had foreign exchange forward contracts in place to hedge exposures in the euro, Japanese yen, and Australian dollar. As of September 29, 2013 and December 30, 2012, the total notional amounts of outstanding forward contracts in place for foreign currency purchases were approximately $49.8 million and $51.2 million, respectively.

Leases

Leases are reviewed and classified as capital or operating at inception. The Company records rent expense on a straight-line basis over the term of the lease, which includes the construction build-out period and lease extension periods, if appropriate. The difference between rent payments and straight-line rent expense is recorded as deferred rent in accrued liabilities and other long-term liabilities. Landlord allowances are amortized on a straight-line basis over the lease term as a reduction to rent expense. The Company capitalizes leasehold improvements and amortizes the value over the shorter of the lease term or the expected useful lives.

In 2012, the Company completed the relocation of its headquarters to another facility in San Diego, California. Headquarter relocation expenses consist of expenses such as accelerated depreciation expense, impairment of assets, additional rent expense during the transition period when both the new and former headquarter facilities are occupied, moving expenses, cease-use losses, and accretion of interest expense on lease exit liability. The Company recorded accelerated depreciation expense for leasehold improvements at its former headquarter facility based on the reassessed useful lives of less than a year. The Company recorded cease-use losses and the corresponding facility exit obligation upon vacating its former headquarters, calculated as the present value of the remaining lease obligation offset by estimated sublease rental receipts during the remaining lease period, adjusted for deferred items and estimated lease incentives. The key assumptions used in the calculation include the amount and timing of estimated sublease rental receipts, and the risk-adjusted discount rate.

During the nine months ended September 29, 2013, the Company entered into an agreement to sublease sections of its former headquarters. The sublease has an initial term of approximately ten years. Minimum lease payments during the initial term of the sublease are expected to be $30.5 million in total. In conjunction with the sublease, the Company issued a letter of credit in the amount of $8.0 million, which will decrease ratably to zero over the term of the sublease.

During the nine months ended September 29, 2013, the Company entered into an agreement to lease a facility in San Francisco, California for an initial term of approximately ten years. Minimum lease payments during the initial term are estimated to be $46.5 million in total.

Reserve for Product Warranties

The Company generally provides a one-year warranty on instruments. Additionally, the Company provides a warranty on consumables through the expiration date, which generally ranges from six to 12 months after the manufacture date. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses based on historical experience as well as anticipated product performance. The Company periodically reviews the adequacy of its warranty reserve and adjusts the warranty accrual, if necessary, based on actual experience and estimated costs to be incurred. Warranty expense is recorded as a component of cost of product revenue.

Net Income per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the reporting period increased to include dilutive potential common shares calculated using the treasury stock method. Diluted net income per share reflects the potential dilution from outstanding stock options, restricted stock units, shares issuable under the employee stock purchase plan (ESPP), warrants, shares subject to forfeiture, and convertible senior notes. Under the treasury stock method, convertible senior notes will have a dilutive impact when the average market price of the Company's common stock is above the applicable conversion price of the respective notes. In addition, the following amounts are assumed to be used to repurchase shares: the amount that must be paid to exercise stock options and warrants and purchase shares under the ESPP; the average amount of compensation expense for future services that the Company has not yet recognized for stock options, restricted stock units, ESPP shares, and shares subject to forfeiture; and the amount of tax benefits that will be recorded in additional paid-in capital when the expenses related to respective awards become deductible. In loss periods, basic net loss per share and diluted net loss per share are identical since the effect of otherwise dilutive potential common shares is anti-dilutive and therefore excluded.

The following table presents the calculation of weighted average shares used to calculate basic and diluted net income per share (in thousands):

	Three Months Ended		Nine Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Weighted average shares outstanding	125,465	122,930	124,532	122,929
Effect of dilutive potential common shares from:				
Convertible senior notes	1,028	906	1,052	941
Equity awards	4,596	3,719	4,290	3,812
Warrants sold in connection with convertible senior notes	9,512	4,952	8,756	5,444
Weighted average shares used in calculation of diluted net income per share	140,601	132,507	138,630	133,126
Potentially dilutive shares excluded from calculation due to anti-dilutive effect	317	2,727	1,305	2,871

2. Balance Sheet Account Details

Short-Term Investments

The following is a summary of short-term investments (in thousands):

	September 29, 2013				December 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:								
Debt securities in government sponsored entities	$ 71,355	$ 26	$ (38)	$ 71,343	$ 314,638	$ 251	$ (16)	$ 314,873
Corporate debt securities	234,587	327	(251)	234,663	471,989	1,059	(187)	472,861
U.S. Treasury securities	30,086	63	—	30,149	128,256	233	—	128,489
Total available-for-sale securities	$ 336,028	$ 416	$ (289)	$ 336,155	$ 914,883	$ 1,543	$ (203)	$ 916,223

As of September 29, 2013, the Company had 72 available-for-sale securities in a gross unrealized loss position, all of which had been in such position for less than 12 months. There were no impairments considered other-than-temporary as it is more likely than not the Company will hold the securities until maturity or until the cost basis is recovered.

The following table shows the fair values and the gross unrealized losses of the Company's available-for-sale securities that were in an unrealized loss position as of September 29, 2013 and December 30, 2012, aggregated by investment category (in thousands):

	September 29, 2013		December 30, 2012	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Debt securities in government sponsored entities	$ 26,272	$ (38)	$ 28,176	$ (16)
Corporate debt securities	88,299	(251)	130,224	(187)
Total	$ 114,571	$ (289)	$ 158,400	$ (203)

Realized gains and losses are determined based on the specific identification method and are reported in interest income. Gross realized gains and losses on sales of available-for-sale securities were immaterial for all periods presented.

Contractual maturities of available-for-sale debt securities as of September 29, 2013 were as follows (in thousands):

	Estimated Fair Value
Due within one year	$ 176,443
After one but within five years	159,712
Total	$ 336,155

Cost-Method Investments

As of September 29, 2013 and December 30, 2012, the aggregate carrying amounts of the Company's cost-method investments in non-publicly traded companies were $56.5 million and $56.3 million, respectively, which were included in other assets on the consolidated balance sheets. During the three months ended March 31, 2013, the Company sold a cost-method investment and recognized a $6.1 million gain. The Company assesses all cost-method investments for impairment quarterly. No impairment loss was recorded during the three and nine months ended September 29, 2013 or September 30, 2012. The Company does not reassess the fair value of cost-method investments if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investments.

Headquarter Facility Exit Obligation

Changes in the Company's facility exit obligation related to its former headquarters lease during the nine months ended September 29, 2013 are as follows (in thousands):

	Headquarter Facility Exit Obligation
Balance as of December 30, 2012	$ 45,352
Adjustment to facility exit obligation	(1,948)
Accretion of interest expense	1,716
Cash settlements	(7,974)
Balance as of September 29, 2013	$ 37,146

Facility exit obligation liability recorded upon vacating the Company's former headquarters was adjusted for updates to assumptions based on terms of the facility sublease agreements entered during the nine months ended September 29, 2013.

Warranties

Changes in the Company's reserve for product warranties during the nine months ended September 29, 2013 are as follows (in thousands):

	Warranty Reserve
Balance as of December 30, 2012	$ 10,136
Additions charged to cost of revenue	13,929
Repairs and replacements	(12,748)
Balance as of September 29, 2013	$ 11,317

Inventory

Inventory consists of the following (in thousands):

	September 29, 2013	December 30, 2012
Raw materials	$ 59,714	$ 61,665
Work in process	74,146	75,675
Finished goods	26,006	21,378
Total inventory	$ 159,866	$ 158,718

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	September 29, 2013	December 30, 2012
Accrued compensation expenses	$ 68,273	$ 59,864
Deferred revenue, current portion	48,158	55,817
Accrued taxes payable	24,882	23,021
Customer deposits	14,676	13,765
Reserve for product warranties	11,317	10,136
Acquisition related contingent liability, current portion	6,426	9,490
Facility exit obligation, current portion	6,154	8,063
Accrued royalties	2,841	2,836
Unsettled short-term investment purchase	—	9,154
Other	17,250	9,731
Total accrued liabilities	$ 199,977	$ 201,877

3. Acquisitions

Current Year Acquisitions

On February 21, 2013, the Company acquired all of the outstanding capital stock of Verinata Health, Inc., a leading provider of non-invasive tests for the early identification of fetal chromosomal abnormalities. With this acquisition, the Company strengthened its reproductive health product portfolio by gaining access to Verinata's verifi® non-invasive prenatal test (NIPT) as well as what management believes to be the most comprehensive intellectual property portfolio in the NIPT industry.

The contractual price for the acquisition was $350.0 million, plus potential cash payments of up to $100.0 million based on the achievement of certain regulatory and revenue milestones. The aggregate purchase price was determined to be $396.3 million, including total cash payment of $339.3 million, $56.2 million in fair value of the contingent milestone payments, $0.3 million in fair value of converted stock options attributed to pre-combination services, and $0.5 million in loss realized on settlement of preexisting relationships. In connection with the transaction, the Company deposited into escrow $30.0 million of consideration otherwise payable to shareholders of Verinata. This amount is included in the aggregate consideration and will be held in escrow to cover indemnification claims under the acquisition agreement, if any, for a period of 1.5 years following the completion of the acquisition. During the nine months ended September 29, 2013, transaction costs of $3.2 million were expensed as incurred in acquisition related (gain) expense, net.

In conjunction with the acquisition, the Company assumed the Verinata Health, Inc. 2008 Stock Plan and converted, as of the acquisition date, the unvested stock options outstanding under the plan, all of which were in the money, into 0.4 million unvested stock options to purchase Illumina's common stock, retaining the original vesting schedules. The fair value of all converted options was $18.9 million, $0.3 million of which was attributed to the pre-combination service period and was included in the calculation of purchase price. The remaining fair value will be recognized over the awards' remaining vesting

periods subsequent to the acquisition. The weighted-average acquisition-date fair value of the converted options was determined using the Black-Scholes option pricing model with the following assumptions: (i) market price of $48.36 per share, which was the closing price of Illumina's common stock on the acquisition date; (ii) weighted average expected term of 2.3 years; (iii) weighted average risk-free interest rate of 0.32%; (iv) weighted average annualized volatility of 42%; and (v) no dividend yield. The weighted average acquisition-date fair value per share of the assumed stock options was $42.63.

An initial liability of $56.2 million was recorded for an estimate of the acquisition date fair value of the contingent consideration. Any change in the fair value of the contingent milestone consideration subsequent to the acquisition date was and will be recognized in the statements of operations. The fair value of the regulatory milestone payments was measured by the probability-weighted discounted cash flows and the fair value of the revenue milestone payments was measured using a risk-neutral option pricing model, which captures the present value of the expected payment and the probability of reaching the revenue targets. Key assumptions used in the fair value assessments included discount rates ranging from 6% to 20%, volatility of 50%, risk-free rates of 0.26%, revenue projections, and the probability of achieving regulatory milestones. This fair value measurement of the contingent consideration is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value.

As of September 29, 2013, the preliminary allocation of the purchase price to the assets acquired and liabilities assumed on the acquisition date was as follows (in thousands):

	Allocation of purchase price
Cash and cash equivalents	$ 9,151
Accounts receivable	2,801
Inventory	1,110
Prepaid expenses and other current assets	979
Property and equipment	12,239
Other assets	978
Intangible assets	176,490
Goodwill	220,884
Accounts payable	(2,539)
Accrued liabilities	(3,803)
Lease financing obligation	(9,695)
Deferred tax liability	(12,328)
Total purchase price	$ 396,267

The Company continues to obtain information to complete its valuation of assets and liabilities acquired from Verinata, including the valuation of certain deferred tax benefits during the measurement period. Subsequent to the preliminary allocation of purchase price, the Company recorded a net reduction to goodwill of $8.2 million, which primarily related to a $4.9 million decrease in the assessed fair value of the contingent milestone payments which was included in the purchase price, a $6.3 million increase to the assessed values of intangible assets, and the deferred tax liability adjustments of $1.8 million.

In conjunction with the acquisition, the Company assumed Verinata's building lease, for which Verinata was considered the accounting owner of the leased building and as such, recorded the fair value of the building as an asset as of the acquisition date. The building is depreciated over a useful life of 30 years. The Company also recorded the related lease financing obligation as a liability assumed, representing the present value of all remaining building lease payments and a balloon payment at the end of the lease for the value of the building to be transferred to the landlord. As of the acquisition date, total remaining payments under the lease was $5.7 million and the remaining lease term was 4.7 years, with two three-year renewal options.

The following table summarizes the fair value of identifiable intangible assets acquired (amounts in thousands):

	Weighted Average Useful Lives (in years)	Fair Value
Developed technology	13	$ 170,200
Customer relationships	5	4,690
Trade name	2	1,600
Total intangible assets acquired, excluding goodwill		$ 176,490

The fair value of the developed technology and trade name was estimated using an income approach. Under the income approach, an intangible asset's fair value is equal to the present value of future economic benefits to be derived from ownership of the asset. The estimated fair value was developed by discounting future net cash flows to their present value at market-based rates of return. The fair value of the customer relationships was developed using a cost approach by estimating the time and personnel effort in constructing the customer base. The useful life of the intangible assets for amortization purposes was determined by considering the period of expected cash flows used to measure the fair value of the intangible assets adjusted as appropriate for the entity-specific factors including legal, regulatory, contractual, competitive, economic, or other factors that may limit the useful life of intangible assets.

The excess of the fair value of the total consideration over the estimated fair value of the net assets was recorded as goodwill, which was primarily attributable to the synergies expected from combining the technologies of Illumina with those of Verinata, including complementary products that will enhance the Company's overall product portfolio, and the value of the workforce that became our employees following the closing of the acquisitions. The goodwill recognized is not expected to be deductible for income tax purposes.

The Company completed acquisitions of a development-stage company and Advanced Liquid Logic Inc., a leading provider of liquid handling solutions, on December 31, 2012, and July 1, 2013, respectively. As a result of these transactions, the Company recorded goodwill of $76.9 million, and developed technologies of $15.6 million and $28.0 million with useful lives of five and 11 years, respectively. The purchase price allocations are preliminary and subject to change as more detailed analyses are completed and additional information with respect to the fair values of the assets and liabilities acquired becomes available. In addition, the Company completed its acquisition of NextBio, a leader in clinical and genomic informatics, on October 28, 2013.

Pro Forma Information

The following unaudited pro forma information presents the consolidated results of operations of the Company and Verinata as if the acquisition had occurred at the beginning of the applicable annual reporting period, with pro forma adjustments to give effect to intercompany transactions to be eliminated, amortization of intangible assets, share-based compensation, and transaction costs directly associated with the acquisition (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Net revenues	$ 356,800	$ 284,109	$ 1,033,888	$ 834,770
Net income	$ 31,357	$ 18,447	$ 36,327	$ 45,897
Net income per share-basic	$ 0.25	$ 0.15	$ 0.29	$ 0.37
Net income per share-diluted	$ 0.22	$ 0.14	$ 0.26	$ 0.34

These unaudited pro forma condensed consolidated financial results have been prepared for illustrative purposes only and do not purport to be indicative of the results of operations that actually would have resulted had the acquisition occurred on the first day of the earliest period presented, or of the future results of the consolidated entities. The unaudited pro forma condensed consolidated financial information does not reflect any operating efficiencies and cost savings that may be realized from the integration of the acquisition.

Prior Year Acquisitions

On September 19, 2012, the Company announced the acquisition of BlueGnome Ltd., a provider of cytogenetics and in vitro fertilization screening products. Total consideration for the acquisition was $95.5 million, which included $88.0 million in initial cash payments and $7.5 million in fair value of contingent cash consideration of up to $20.0 million based on the achievement of certain revenue based milestones by December 28, 2014.

The Company estimated the fair value of contingent cash consideration using a probability weighted discounted cash flow approach, a Level 3 measurement based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value. The Company used a discount rate of 30% in the assessment of the acquisition date fair value for the contingent cash consideration. Future changes in significant inputs such as the discount rate and estimated probabilities of milestone achievements could have a significant effect on the fair value of the contingent consideration.

In conjunction with the purchase transaction, the Company also agreed to pay up to $20.0 million to BlueGnome shareholders contingent upon the retention of certain key employees and certain other criteria. Such contingent payments will be recognized as contingent compensation expense over the retention period through December 28, 2014.

The Company allocated approximately $11.2 million of the total consideration to tangible assets, net of liabilities, and $48.9 million to identified intangible assets, including additional developed technologies of $25.0 million, customer relationships of $16.8 million, and a trade name of $7.1 million with average useful lives of seven, five, and ten years, respectively. The Company also recorded a $12.1 million deferred tax liability to reflect the tax impact of certain identified intangible assets, the amortization expenses for which are not tax deductible. The Company recorded the excess consideration of approximately $47.5 million as goodwill.

On January 10, 2011, the Company acquired Epicentre Technologies Corporation, a provider of nucleic acid sample preparation reagents and specialty enzymes used in sequencing and microarray applications. Total consideration for the acquisition was $71.4 million, which included $59.4 million in net cash payments made at closing, $4.6 million in the fair value of contingent consideration settled in stock that is subject to forfeiture if certain non-revenue based milestones are not met, and $7.4 million in the fair value of contingent cash consideration of up to $15.0 million based on the achievement of certain revenue based milestones by January 10, 2013.

The Company estimated the fair value of contingent stock consideration based on the closing price of its common stock as of the acquisition date. Approximately 0.2 million shares of common stock were issued to Epicentre shareholders in connection with the acquisition, which shares are subject to forfeiture if certain non-revenue-based milestones are not met. One third of these shares issued with an assessed fair value of $4.6 million were determined to be part of the purchase price. The remaining shares with an assessed fair value of $10.1 million were determined to be compensation for post-acquisition service, the cost of which was recognized as contingent compensation expense over a period of two years in research and development expense or selling, general and administrative expense.

The Company estimated the fair value of contingent cash consideration using a probability weighted discounted cash flow approach, a Level 3 measurement based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value. The Company used a discount rate of 21% in the assessment of the acquisition date fair value for the contingent cash consideration.

The Company allocated $0.9 million of the total consideration to tangible assets, net of liabilities, and $26.9 million to identified intangible assets, including additional developed technologies of $23.3 million, a trade name of $2.5 million, and customer relationships of $1.1 million, with weighted average useful lives of approximately nine, ten, and three years, respectively. The Company recorded the excess consideration of $43.6 million as goodwill.

Summary of Contingent Compensation Expenses

Contingent compensation expense recorded as a result of all acquisitions consists of the following (in thousands):

	Three Months Ended		Nine Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Contingent compensation, included in research and development expense	$ 106	$ 754	$ 432	$ 2,218
Contingent compensation, included in selling, general and administrative expense	2,337	742	7,692	2,586
Total contingent compensation expense	$ 2,443	$ 1,496	$ 8,124	$ 4,804

4. Fair Value Measurements

The following table presents the Company's hierarchy for assets and liabilities measured at fair value on a recurring basis as of September 29, 2013 and December 30, 2012 (in thousands):

	September 29, 2013				December 30, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Money market funds (cash equivalents)	$ 499,128	$ —	$ —	$ 499,128	$ 252,126	$ —	$ —	$ 252,126
Debt securities in government-sponsored entities	—	71,343	—	71,343	—	314,873	—	314,873
Corporate debt securities	—	234,663	—	234,663	—	472,861	—	472,861
U.S. Treasury securities	30,149	—	—	30,149	128,489	—	—	128,489
Deferred compensation plan assets	—	17,057	—	17,057	—	13,626	—	13,626
Total assets measured at fair value	$ 529,277	$ 323,063	$ —	$ 852,340	$ 380,615	$ 801,360	$ —	$ 1,181,975
Liabilities:								
Acquisition related contingent consideration liabilities	$ —	$ —	$ 57,232	$ 57,232	$ —	$ —	$ 12,519	$ 12,519
Deferred compensation liability	—	14,902	—	14,902	—	12,071	—	12,071
Total liabilities measured at fair value	$ —	$ 14,902	$ 57,232	$ 72,134	$ —	$ 12,071	$ 12,519	$ 24,590

The Company holds available-for-sale securities that consist of highly liquid, investment grade debt securities. The Company determines the fair value of its debt security holdings based on pricing from a service provider. The service provider values the securities based on "consensus pricing," using market prices from a variety of industry-standard independent data providers. Such market prices may be quoted prices in active markets for identical assets or liabilities (Level 1 inputs) or pricing determined using inputs that are observable either directly or indirectly (Level 2 inputs), such as quoted prices for similar assets or liabilities, yield curve, volatility factors, credit spreads, default rates, loss severity, current market and contractual prices for the underlying instruments or debt, broker and dealer quotes, as well as other relevant economic measures. The Company's deferred compensation plan assets consist primarily of mutual funds. The Company performs certain procedures to corroborate the fair value of its holdings, including comparing prices obtained from service providers to prices obtained from other reliable sources.

The Company reassesses the fair value of contingent consideration to be settled in cash related to acquisitions on a quarterly basis using the income approach. This is a Level 3 measurement. Significant assumptions used in the measurement include probabilities of achieving the remaining milestones and the discount rates, which depend on the milestone risk profiles. The changes in the fair value of the contingent considerations during the three and nine months ended September 29, 2013 were due to changes in the estimated payments and a shorter discounting period.

Changes in estimated fair value of contingent consideration liabilities during the nine months ended September 29, 2013 are as follows (in thousands):

	Contingent Consideration Liability (Level 3 Measurement)
Balance as of December 30, 2012	$ 12,519
Additional liability recorded as a result of current period acquisitions	60,183
Change in estimated fair value, recorded in acquisition related (gain) expense, net	(11,031)
Cash settlements	(4,439)
Balance as of September 29, 2013	$ 57,232

5. Convertible Senior Notes

0.25% Convertible Senior Notes due 2016

In 2011, the Company issued $920.0 million aggregate principal amount of 0.25% convertible senior notes due 2016 (2016 Notes) in an offering conducted in accordance with Rule 144A under the Securities Act of 1933, as amended. The 2016 Notes were issued at 98.25% of par value. Debt issuance costs of approximately $0.4 million were primarily comprised of legal, accounting, and other professional fees, the majority of which were recorded in other noncurrent assets and are being amortized to interest expense over the five-year term of the 2016 Notes.

The 2016 Notes will be convertible into cash, shares of common stock, or a combination of cash and shares of common stock, at the Company's election, based on an initial conversion rate, subject to adjustment, of 11.9687 shares per $1,000 principal amount of the 2016 Notes (which represents an initial conversion price of approximately $83.55 per share), only in the following circumstances and to the following extent: (1) during the five business-day period after any 10 consecutive trading day period (the "measurement period") in which the trading price per 2016 Note for each day of such measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such day; (2) during any calendar quarter (and only during that quarter) after the calendar quarter ending March 31, 2011, if the last reported sale price of the Company's common stock for 20 or more trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; (3) upon the occurrence of specified events described in the indenture for the 2016 Notes; and (4) at any time on or after December 15, 2015 through the second scheduled trading day immediately preceding the maturity date.

As noted in the indenture for the 2016 Notes, it is the Company's intent and policy to settle conversions through combination settlement, which essentially involves repayment of an amount of cash equal to the "principal portion" and delivery of the "share amount" in excess of the conversion value over the principal portion in shares of common stock. In general, for each $1,000 in principal, the "principal portion" of cash upon settlement is defined as the lesser of $1,000, and the conversion value during the 20-day observation period as described in the indenture for the 2016 Notes. The conversion value is the sum of the daily conversion value which is the product of the effective conversion rate divided by 20 days and the daily volume weighted average price (VWAP) of the Company's common stock. The "share amount" is the cumulative "daily share amount" during the observation period, which is calculated by dividing the daily VWAP into the difference between the daily conversion value (i.e., conversion rate x daily VWAP) and $1,000.

The Company pays 0.25% interest per annum on the principal amount of the 2016 Notes semiannually in arrears in cash on March 15 and September 15 of each year. The 2016 Notes mature on March 15, 2016. If a designated event, as defined in the indenture for the 2016 Notes, such as an acquisition, merger, or liquidation of the Company, occurs prior to the maturity date, subject to certain limitations, holders of the 2016 Notes may require the Company to repurchase all or a portion of their 2016 Notes for cash at a repurchase price equal to 100% of the principal amount of the 2016 Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the repurchase date.

The Company accounts separately for the liability and equity components of the 2016 Notes in accordance with authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. The guidance requires the carrying amount of the liability component to be estimated by measuring the fair value of a similar liability that does not have an associated conversion feature. Because the Company has no outstanding non-convertible public debt, the Company determined that senior, unsecured corporate bonds traded on the market represent a similar liability to the convertible senior

notes without the conversion option. Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, the Company estimated the implied interest rate of its 2016 Notes to be 4.5%, assuming no conversion option. Assumptions used in the estimate represent what market participants would use in pricing the liability component, including market interest rates, credit standing, and yield curves, all of which are defined as Level 2 observable inputs. The estimated implied interest rate was applied to the 2016 Notes, which resulted in a fair value of the liability component of $748.5 million upon issuance, calculated as the present value of implied future payments based on the $920.0 million aggregate principal amount. The $155.4 million difference between the cash proceeds of $903.9 million and the estimated fair value of the liability component was recorded in additional paid-in capital as the 2016 Notes are not considered currently redeemable at the balance sheet date.

As a policy election under applicable guidance related to the calculation of diluted net income per share, the Company elected the combination settlement method as its stated settlement policy and applied the treasury stock method in the calculation of dilutive impact of the 2016 Notes. During the three and nine months ended September 29, 2013 and September 30, 2012, the 2016 Notes were not convertible and therefore not included in the calculation of weighted average shares outstanding. If the 2016 Notes were converted as of September 29, 2013, the if-converted value would not exceed the principal amount.

0.625% Convertible Senior Notes due 2014

In 2007, the Company issued $400.0 million principal amount of 0.625% convertible senior notes due 2014 (2014 Notes). The Company pays 0.625% interest per annum on the principal amount of the 2014 Notes semi-annually in arrears in cash on February 15 and August 15 of each year. The 2014 Notes mature on February 15, 2014. The effective interest rate of the liability component was estimated to be 8.3%.

The Company entered into hedge transactions concurrently with the issuance of the 2014 Notes under which the Company is entitled to purchase up to approximately 18.3 million shares of the Company's common stock at a strike price of approximately $21.83 per share, subject to adjustment. The convertible note hedge transactions had the effect of reducing dilution to the Company's stockholders upon conversion of the 2014 Notes. Also concurrently with the issuance of the 2014 Notes, the Company sold to the hedge counterparties warrants exercisable, on a cashless basis, for up to approximately 18.3 million shares of the Company's common stock at a strike price of $31.435 per share, subject to adjustment. The proceeds from these warrants partially offset the cost to the Company of the convertible note hedge transactions.

The 2014 Notes became convertible into cash and shares of the Company's common stock in various prior periods and became convertible again from April 1, 2012 through, and including, February 12, 2014. In all cases of conversions of the 2014 Notes, the principal amount converted was repaid with cash and the excess of the conversion value over the principal amount was paid in shares of common stock. The equity dilution resulting from the issuance of common stock related to the conversion of the 2014 Notes was offset by repurchase of the same amount of shares under the convertible note hedge transactions, which were automatically exercised in accordance with their terms at the time of each conversion. As of September 29, 2013, there remained in place the balance of the convertible note hedge transactions with respect to approximately $29.6 million principal amount of the 2014 Notes, which are convertible for up to approximately 1.4 million shares of the Company's common stock. If the remaining 2014 Notes were converted as of September 29, 2013, the if-converted value would exceed the principal amount by $80.5 million.

As a result of conversions during the three months ended September 29, 2013, the Company recorded losses on extinguishment of debt calculated as the difference between the estimated fair value of the debt and the carrying value of the notes as of the settlement dates. To measure the fair value of the converted notes as of the settlement dates, the applicable interest rates were estimated using Level 2 observable inputs and applied to the converted notes using the same methodology utilized for the issuance date valuation.

The following table summarizes information about the conversions of the 2014 Notes during the three and nine months ended September 29, 2013 (in thousands, except percentages):

	September 29, 2013	
	Three Months Ended	Nine Months Ended
Cash paid for principal of notes converted	$ 1,505	$ 10,505
Conversion value over principal amount paid in shares of common stock	$ 4,071	$ 21,053
Number of shares of common stock issued upon conversion	50	315
Loss on extinguishment of debt	$ 44	$ 555
Effective interest rates used to measure fair value of converted notes upon conversion	0.6%	0.6% - 0.8%

The following table summarizes information about the equity and liability components of the 2014 Notes and 2016 Notes (dollars in thousands). The fair values of the respective notes outstanding were measured based on quoted market prices.

	September 29, 2013		December 30, 2012	
	2016 Notes	2014 Notes	2016 Notes	2014 Notes
Principal amount of convertible notes outstanding	$ 920,000	$ 29,620	$ 920,000	$ 40,125
Unamortized discount of liability component	(89,310)	(810)	(114,594)	(3,158)
Net carrying amount of liability component	830,690	28,810	805,406	36,967
Less: current portion	—	(28,810)	—	(36,967)
Long-term debt	$ 830,690	$ —	$ 805,406	$ —
Conversion option subject to cash settlement		$ 810		$ 3,158
Carrying value of equity component, net of debt issuance cost	$ 155,366	$ 118,948	$ 155,366	$ 116,600
Fair value of outstanding notes (Level 2 measurement)	$ 1,050,681	$ 109,692	$ 892,446	$ 101,470
Remaining amortization period of discount on the liability component	2.5 years	0.4 years	3.2 years	1.1 years

Contractual coupon interest expense and accretion of discount on the liability component recorded for the convertible senior notes during the three and nine months ended September 29, 2013 and September 30, 2012, respectively, were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Contractual coupon interest expense	$ 624	$ 638	$ 1,871	$ 1,835
Accretion of discount on the liability component	$ 9,063	$ 8,801	$ 27,095	$ 26,100

6. Share-based Compensation Expense

Share-based compensation expense for all stock awards consists of the following (in thousands):

	Three Months Ended		Nine Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Cost of product revenue	$ 1,524	$ 1,928	$ 4,410	$ 5,584
Cost of service and other revenue	233	142	544	327
Research and development	9,561	7,764	26,521	22,878
Selling, general and administrative	16,091	13,238	44,605	41,359
Share-based compensation expense before taxes	27,409	23,072	76,080	70,148
Related income tax benefits	(8,059)	(7,821)	(23,123)	(23,780)
Share-based compensation expense, net of taxes	$ 19,350	$ 15,251	$ 52,957	$ 46,368

The assumptions used for the specified reporting periods and the resulting estimates of weighted average fair value per share of options granted and for stock purchase rights granted under the ESPP for the nine months ended September 29, 2013 are as follows:

	Stock Options	Employee Stock Purchase Rights
Risk-free interest rate	0.14 - 1.86%	0.08 - 0.13%
Expected volatility	30 - 44%	32%
Expected term	0.8 - 9.4 years	0.5 - 1.0 year
Expected dividends	—	—
Weighted average fair value per share	$ 40.66	$ 20.60

As of September 29, 2013, approximately $179.1 million of unrecognized compensation cost related to stock options, restricted stock, performance stock, and ESPP shares is expected to be recognized over a weighted average period of approximately 2.0 years.

7. Stockholders' Equity

The Company's 2005 Stock and Incentive Plan (the 2005 Stock Plan), 2005 Solexa Equity Incentive Plan (the 2005 Solexa Equity Plan), the Verinata Health, Inc. 2008 Stock Plan (the 2008 Verinata Stock Plan) and the New Hire Stock and Incentive Plan allow for the issuance of stock options, restricted stock units and awards, and performance stock units. During the nine months ended September 29, 2013, the stockholders ratified an amendment to increase the maximum number of shares of common stock authorized for issuance under the 2005 Stock Plan by 5.0 million shares. As of September 29, 2013, approximately 7.6 million shares remained available for future grants under the 2005 Stock Plan, the 2005 Solexa Equity Plan, and the 2008 Verinata Health Stock Plan. There is no set number of shares reserved for issuance under the New Hire Stock and Incentive Plan.

Stock Options

The Company's stock option activity under all stock option plans during the nine months ended September 29, 2013 is as follows:

	Options (in thousands)	Weighted Average Exercise Price per Share
Outstanding as of December 30, 2012	8,351	$ 32.10
Granted	512	14.74
Exercised	(2,409)	28.56
Cancelled	(129)	42.81
Outstanding as of September 29, 2013	6,325	$ 31.83

At September 29, 2013, outstanding options to purchase approximately 5.1 million shares were exercisable with a weighted average exercise price per share of $30.49. Grant activity during the current year includes the conversion of options to purchase Verinata common stock into options to purchase Illumina's common stock in connection with the acquisition of Verinata.

Restricted Stock

A summary of the Company's restricted stock activity and related information for the nine months ended September 29, 2013 is as follows:

	Restricted Stock (in thousands)	Weighted Average Grant-Date Fair Value per Share
Outstanding at December 30, 2012	4,125	$ 46.43
Awarded	749	60.20
Vested	(648)	47.06
Cancelled	(231)	48.35
Outstanding as of September 29, 2013	3,995	$ 48.80

Performance Stock Units

The Company issues performance stock units for which the number of shares issuable will range from 50% to 150% of the shares approved in the award, based on the Company's performance relative to specified earnings per share targets at the end of a three-year performance period. A summary of the Company's performance stock unit activity and related information for the nine months ended September 29, 2013 is as follows:

	Performance Stock (in thousands)	Weighted Average Grant-Date Fair Value per Share
Outstanding at December 30, 2012	587	$ 49.64
Awarded	504	52.54
Cancelled	(70)	50.42
Outstanding as of September 29, 2013	1,021	$ 51.02

Employee Stock Purchase Plan

The price at which common stock is purchased under the ESPP is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. During the nine months ended September 29, 2013, approximately 0.4 million shares were issued under the ESPP. As of September 29, 2013, there were approximately 15.0 million shares available for issuance under the ESPP.

Warrants

In connection with the offering of the 2014 Notes, the Company sold warrants to purchase 18.3 million shares of common stock to counterparties to the convertible note hedge transactions. The warrants have an exercise price of $31.435 per share, and the proceeds from the sale of such warrants were used by the Company to partially offset the cost of such hedging transactions. In July 2013, the Company settled with a hedging counterparty outstanding warrants to purchase approximately 3.0 million shares of the Company's common stock for $125.0 million in cash. As of September 29, 2013 warrants to purchase 15.4 million shares of the Company's common stock remained outstanding. All outstanding warrants expire in equal installments during the 40 consecutive scheduled trading days beginning on May 16, 2014.

Share Repurchases

In 2012, the Company's Board of Directors authorized a $250 million stock repurchase program to be effected via a combination of Rule 10b5-1 and discretionary share repurchase programs. During the nine months ended September 29, 2013, the Company repurchased approximately 0.9 million shares for $50.0 million.

Stockholder Rights Plan

On January 25, 2012, the Company's Board of Directors declared a dividend of one preferred share purchase right (Right) for each outstanding share of the Company's common stock. In March 2013, the expiration date was amended to be March 27, 2013 and the Rights expired accordingly.

8. Income Taxes

The Company's effective tax rate may vary from the U.S. federal statutory tax rate due to the change in the mix of earnings in tax jurisdictions with different statutory rates, benefits related to tax credits, and the tax impact of non-deductible expenses and other permanent differences between income before income taxes and taxable income. The effective tax rates for the three and nine months ended September 29, 2013 were 15.6% and (14.6)%, respectively. For the three months ended September 29, 2013, the variance from the U.S. federal statutory tax rate of 35% was primarily attributable to the tax impact of the impairment charge for identifiable intangible assets, foreign earnings taxed at rates lower than the U.S. federal statutory tax rate, and favorable adjustments related to prior year tax returns filed in various jurisdictions which were recorded as discrete items. For the nine months ended September 29, 2013, the variance from the U.S. federal statutory tax rate was primarily attributable to the tax treatment of the Syntrix legal contingency, which was recorded as a discrete item and is nondeductible for tax purposes until paid.

In May 2013, the Internal Revenue Service began an audit of the Company's corporate income tax return filed for fiscal year 2011. The audit continues to be in the information gathering stage.

9. Legal Proceedings

The Company is involved in various lawsuits and claims arising in the ordinary course of business, including actions with respect to intellectual property, employment, and contractual matters. In connection with these matters, the Company assesses, on a regular basis, the probability and range of possible loss based on the developments in these matters. A liability is recorded in the financial statements if it is believed to be probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Because litigation is inherently unpredictable and unfavorable results could occur, assessing contingencies is highly subjective and requires judgments about future events. The Company regularly reviews outstanding legal matters to determine the adequacy of the liabilities accrued and related disclosures. The amount of ultimate loss may differ from these estimates. Each matter presents its own unique circumstances, and prior litigation does not necessarily provide a reliable basis on which to predict the outcome, or range of outcomes, in any individual proceeding. Because of the uncertainties related to the occurrence, amount, and range of loss on any pending litigation or claim, the Company is currently unable to predict their ultimate outcome, and, with respect to any pending litigation or claim where no liability has been accrued, to make a meaningful estimate of the reasonably possible loss or range of loss that could result from an unfavorable outcome. In the event that opposing litigants in outstanding litigations or claims ultimately succeed at trial and any subsequent appeals on their claims, any potential loss or charges in excess of any established accruals, individually or in the aggregate, could have a material adverse effect on the Company's business, financial condition, results of operations, and/or cash flows in the period in which the unfavorable outcome occurs or becomes probable, and potentially in future periods.

On November 24, 2010, Syntrix Biosystems, Inc. filed suit against the Company in the United States District Court for the Western District of Washington at Tacoma (Case No. C10-5870-BHS) alleging that the Company willfully infringed U.S. Patent No. 6,951,682 by selling its BeadChip array products, and that the Company misappropriated Syntrix's trade secrets. In November and December 2012, the Company filed motions for summary judgment that the patent is not infringed and is invalid, and that Syntrix's trade secrets claims are barred by various statutes of limitation. Syntrix filed a motion for summary judgment that the patent is valid. On January 30, 2013, the Court granted the Company's motion for summary judgment on Syntrix's trade secret claims, and dismissed those claims from the case. The Court denied Syntrix's motion for summary judgment on validity, and denied the Company's motion for summary judgment for non-infringement and invalidity. On March 14, 2013, a jury reached a verdict in favor of Syntrix, finding that Illumina's BeadChip kits infringe the Syntrix patent. During trial, the Court dismissed Syntrix's claim that the alleged infringement was willful. On July 1, 2013, the Court entered a Final Amended Judgment for $115.1 million, in accordance with the jury verdict, including supplemental damages and prejudgment interest. In addition, the Court awarded Syntrix an ongoing royalty of 8% for accused sales from March 15, 2013 until the patent expires on September 16, 2019. On July 17, 2013, the Company filed a post trial motion asking the District Court to vacate the amended judgment and enter judgment as a matter of law in the Company's favor or, alternatively, to grant a new trial. On November 4, 2013, the Court issued an Order denying the Company's motion for judgment as a matter of law and upholding the jury verdict.

The Company believes strongly that it did not infringe the Syntrix patent and that the patent is invalid. The Company, therefore, disagrees with the jury verdict and contends that the verdict is not supported by the law or facts. Accordingly, the Company intends to file an appeal to the Court of Appeals for the Federal Circuit challenging the adverse verdict.

As a result of the amended judgment, the Company has recorded a legal contingency accrual of $127.0 million as of September 29, 2013, which includes the damages and prejudgment interest awarded to Syntrix, estimated additional damages through September 29, 2013, and an estimate of interest accrued on the damages subsequent to June 19, 2013. During the three months ended September 29, 2013, the Company recorded $4.3 million in legal contingencies within cost of sales. For the nine months ended September 29, 2013, such charges totaled $127.0 million, $114.6 million of which was recorded within operating expenses, and the remainder was recorded to cost of sales. Within 30 days of the Order denying judgment as a matter of law, the Company will be required to secure the amount of the judgment and to deposit the accrued post-judgment ongoing royalty amounts into escrow. The Company will also pay into escrow ongoing royalties on future sales at the royalty rate stated in the Amended Judgment during the appeal process.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is provided in addition to the accompanying condensed consolidated financial statements and notes to assist readers in understanding our results of operations, financial condition, and cash flows. This MD&A is organized as follows:

- *Business Overview and Outlook*. High level discussion of our operating results and significant known trends that affect our business.
- *Results of Operations*. Detailed discussion of our revenues and expenses.
- *Liquidity and Capital Resources*. Discussion of key aspects of our statements of cash flows, changes in our financial position, and our financial commitments.
- *Off-Balance Sheet Arrangements*. We have no significant off-balance sheet arrangements.
- *Critical Accounting Policies and Estimates*. Discussion of significant changes since our most recent Annual Report on Form 10-K that we believe are important to understanding the assumptions and judgments underlying our financial statements.

This MD&A discussion contains forward-looking statements that involve risks and uncertainties. Please see "Consideration Regarding Forward-Looking Statements" at the end of this MD&A section for additional factors relating to such statements. This MD&A should be read in conjunction with our condensed consolidated financial statements and accompanying notes included in this report and our Annual Report on Form 10-K for the fiscal year ended December 30, 2012. Operating results are not necessarily indicative of results that may occur in future periods.

Exhibit 229

Biotech »

Related: Watchdog

Illumina ranks 4th on new Forbes tech list

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Written by Keith Darcé

9:57 a.m., Feb. 17, 2011

Illumina was among the country's fastest growing technology companies in 2010, according to a new ranking published by Forbes magazine on Thursday.

The San Diego genetic testing company, which ranked 4th, made the annual list for the fourth time in the last five years.

The top spot on the new list went to First Solar, a semiconductor company in Tempe, Ariz., followed by Neutral Tandem, a Chicago telecommunications firm, and Riverbend Technology, a data processing services provider in West Sacramento.

Forbes said it screened more than 5,000 companies for the list, looking for those with at least $25 million in sales and 10-percent sales growth in 2010. The final 25 were ranked on their sales growth rates over the last five years.

Illumina's growth rate over that period was 76 percent, according to Forbes.

The company had sales of $902.7 million in 2010, a 35% jump over the previous year, according to its latest quarterly financial report.

Illumina is a leading global maker of genetic sequencing machines and other genetic testing products and services. The DNA mapping market has growing rapidly in recent years as the cost of the technology plunged and more scientists and doctors used genomics for research and patient care.

Illumina's position in the latest Forbes list was one notch higher than its fifth-place ranking in 2009 but short of the No. 1 ranking it nabbed in 2008 and 2006.

Click here to see the full Forbes list for 2010.

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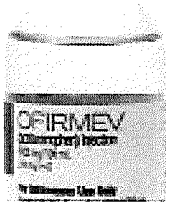
Gen-Probe R&D executives resigns



Cadence shares fall 23 percent on $75 million stock sale

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Technology

America's 25 Fastest-Growing Tech Companies

John J. Ray, 02.16.11, 06:00 PM EST

2010 Forbes Fast Tech List

Rank	Company Name	Business	Closing Price (2/2/2011)	Est. Long-Term EPS Growth (%)	LTM Sales ($Mil)	5-Year Sales Growth (%)
1	**First Solar**	Semiconductors/ Related Devices	$164.40	24	$2,595	182
2	**Neutral Tandem**	Telephone Communications Not Radiotelephone	15.53	12	181	100
3	**Riverbed Technology**	Data Processing And Preparation	35.65	27	552	80
4	**Illumina**	Analytical Instruments	71.31	27	822	76
5	**Cavium Networks**	Semiconductors/ Related Devices	42.29	20	207	56
6	**ViroPharma**	Pharmaceutical Preparations	16.58	10	405	55
7	**Rackspace Hosting**	Internet Software/ Services	35.68	24	735	51
8	**Salesforce.com**	Internet Software/ Services	135.08	27	1,554	50
9	**Celgene**	Pharmaceutical Preparations	53.17	25	3,620	46
10	**SolarWinds**	Prepackaged Software	18.86	18	144	43
11	**Cognizant Technology Solutions**	Computer Programming Services	76.16	20	4,185	43
12	**Equinix**	Information Retrieval Services	90.44	21	1,118	42
13	**LivePerson**	Internet Software/ Services	11.26	26	105	41
14	**Cubist Pharmaceuticals**	Pharmaceutical Preparations	22.24	11	633	41

15	**Sourcefire**	Security Systems Services	25.46	27	128	40
16	**Apple**	Computer Hardware/ Software	344.32	21	76,283	35
17	**Google**	Internet Software/ Services	612.00	18	29,321	34
18	**Gilead Sciences**	Biological Prod's Not Diagnostic	39.46	15	7,949	31
19	**Red Hat**	Prepackaged Software	42.58	19	860	31
20	**Fortinet**	Security Systems Services	39.01	18	325	31
21	**Luminex**	Hardware, Software and Supplies for Medical Testing	17.34	28	139	30
22	**CommVault Systems**	Prepackaged Software	33.08	18	299	27
23	**Quality Systems**	Prepackaged Software	80.29	18	335	27
24	**NCI**	Computer Integrated Systems Design	21.15	15	535	24
25	**Dolby Laboratories**	Motion Picture Audio Technology	60.26	16	923	23

Prices as of 2/2/11
5-Year sales growth, annualized
Estimated Long-Term EPS Growth: Annualized projected over next three to five years.

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ILLUM-0927

Forbes.com

Fast Tech 2009

The 25 Fastest-Growing Technology Companies In America

Paul M. Murdock and John J. Ray 01.29.09, 6:00 PM ET

Buried beneath the downer headlines about massive layoffs and struggling businesses, there is some good news. A select group of tech companies--the 25 Fastest-Growing Technology Stocks in America--is thriving despite the tough economy.

Thirteen companies are making their Fast Tech debuts this year, including Apple, which earned almost $5 billion on $33 billion in sales in its latest 12 months.

The fastest-growing company, based on five-year annualized sales growth, is top-ranked Illumina, which more than doubled its revenues each year for the past five years. Illumina was on our 2007 list, but missed the mark last year because it lost money in 2008. Second-ranked Google has finished first or second in its four years on the Fast Tech 25.

Last year's list of the 25 fastest-growing tech stocks weathered Wall Street's storm somewhat better than the overall market. The class of 2008 Fast Tech stocks fell 30% over the past 12 months, while the Nasdaq 100 Technology Sector Index and the S&P 500 each suffered losses of 39%. This marks the sixth consecutive year--since we first published the Fast Tech list in 2003--that each new group of Fast Tech companies outperformed the market in the subsequent 12 months.

Two of last year's entries, DRS Technologies and LifeCell, were taken over before the end of our one-year performance-measuring period. Both acquisitions came at premiums relative to their January 2008 prices.

Only one 2008 Fast Tech company, Genentech, finished the full 12-month stretch with its stock in positive territory, a 19% gain. The $11 billion (revenues) biotech returns to this year's list with eight other returnees, including Cognizant Technology Solutions, the only company to qualify every year since 2003. More than half of this year's Fast Tech companies are newcomers for 2009. Of the nine repeat performers from last year, five are software developers.

To make the list, companies must have latest 12-month revenues of $25 million or more, annualized sales gains of at least 10% over the past five years and be profitable over the past 12 months. In addition, we require a Thomson IBES long-term consensus profit forecast of at least 10%, annualized. We also exclude companies with significant legal problems or with possible accounting or corporate governance issues, based on scoring data from Audit Integrity of Los Angeles.

Last year, we introduced the Fast 15, a group of companies that may not have met all the stringent requirements of our main list, but appeared to be on track to break into the top ranks at some future date. This year, we tightened our screening criteria for this second group of stocks; these companies must now meet all the criteria of the Fast 25, except we screen them on the basis of three-year sales growth rather than five-year.

On top of our 2009 Fast 15 is OSI Pharmaceuticals,a biotech company specializing in drugs for cancer, diabetes and obesity. Over the last year, the company has registered earnings of $121 million on $365 million in net revenue. On average, OSI has more than doubled its revenues in each of the past three years.

Seeking Alpha α

Illumina Dominating the Sequencing Market

by: Dave Westenberg

March 4, 2009 | about: ILMN

While the impact of investor fear on promising biotech developmental stage companies that are moving the entire industry toward the personalized medicine paradigm is unknown, what should be known is that one of those essential road towards that paradigm is paved with cash.

The future of personalized medicine depends on understanding human genome. Over the next decade it will be critical to sequence every piece of organic matter in order to better understand the map of life. Sequencing is profitable and one company dominates the sequencing market: Illumina (ILMN).

While biotech companies' actual sales are more resistant to macroeconomic conditions, the current investment climate calls for cash flow positive picks. The company's Q3 acquisition of Avantome put the company in the red for Q3, but without the acquisition costs, the company still made $.15 EPS. Last quarter, ILMN made $.22 EPS. The company's cash exceeds its debt, and the company can remain strong for the foreseeable future. In a challenging funding environment, the company's cash flow positive standing puts them in position to be acquirers of struggling companies and discounted IP. In the Q4 2008 conference call, management said they would be "opportunistic." With a brilliantly timed secondary offering, the company was able to raise 300 million when the stock price was in the high 80s, right before the huge October and November market slump.

ILMN has shown consistent top growth every quarter. Sequentially they have growth for the last 30 plus quarters. While the basic law of large numbers suggests that the delta will fall, 30 plus percent top line growth still justifies a large multiple. This 30 percent YOY top line growth is on the low end of estimates.

ILMN's product line continues to grow and the company has no shortage of buyers globally. Management believes the demand for sequencing and geno-typing as "insatiable" (quoted from Q3 conference call). Most users and analysts believe that ILMN's products (GA, iScan, and the Beadexpress) are best-in-class and have a strong leg up over its closes competitor Affymetrix (AFFX). In the Q4 call, CEO Flatley said that market share is "60 percent in sequencing and genotyping is 60 percent." Although growing market share in instruments maybe tough when ILMN already has much of the market, consumables will be key going forward.

ILMN's substantial instrument sales in prior quarters put them in a position to grow consumable products. While the typical model of companies is to sell the razor for nothing and charge a premium for the razor blades, ILMN has historically been able to sell both at good margins (consumable still are the higher margin product.) Going forward, they expect instrument sales to plateau and margins in instruments to decline, but consumables to raise considerably more than offsetting instruments. Throughput has also grown considerable. As the instruments continue to get faster more consumables will be used per installed base. The iScan system now produces over $700,000 consumable revenue per installed base.

With its market share and technological advantages, Illumina has the sequencing market for at least near term. Predictable consumable revenue, strong margins going forward, lack of a strong competitor means this company should be a sure bet in the short term. Longer term, Illumina looks promising too as long as it can acquire or produce a diagnostics business. With a strong cash position and progress with the Bead-Express, diagnostics maybe around the corner. In the mean time, I'll take dominating the billion dollar plus sequencing market for a good biotech pick.

Disclosure: Author holds a long position in ILMN

ILLUM-0929

Forbes.com

FastTech

Illumina: Shining In Dreary Times

Madalina Iacob 01.29.09, 6:00 PM ET

In a dreary market for life science companies marked by layoffs and drastic research cutbacks, San Diego's Illumina looks positively brilliant. The company, which makes tools that scientists use to analyze the genes of humans, animals and plants, should rack up a 55% increase in revenues in 2008. Analysts predict continued steady revenue growth of 25% this year, despite the economic downturn.

Illumina has grown from just $10 million in revenues in 2002 to an estimated $567 million in 2008. Along the way it has captured as much as 70% market share in certain fields of genetic analysis, says Tycho Peterson, an analyst at J.P. Morgan. Net income is projected to hit $79 million in 2008, up from $51 million the previous year, according to Deutsche Bank Securities.

Though Illumina's stock price, at a recent $28.45, is 40% off last year's high, it's rebounded from the $19 range it traded in December, and the company boasts a $3.5 billion market capitalization.

Illumina's strong performance helped it land the No. 1 spot on Forbes' 2009 list of the 25 fastest-growing tech companies. Illumina grabbed the top spot on Forbes' 2007 fast tech list but dropped off the list in 2008.

A group of scientists and physicians created Illumina in 1998 to pursue what was then a new technology to characterize the genome of humans, bacteria and animals. Its biggest competitor has been Affymetrix. The two companies settled a heated patent dispute early last year. In 2007, Illumina bought Solexa, a Hayward, Calif., gene analysis company, for $600 million in stock.

Illumina Chief Executive Jay Flatley knows that his company cannot relax for a moment. "The challenge in sequencing is the competition, because such a big market attracts smaller start-ups," Flatley says. "We will continue to innovate and make sure we develop technology faster than the competition."

The company has generated some dedicated customers. Edward Rubin, director at the U.S. Department of Energy Joint Genome Institute in Walnut Creek, Calif., has 12 Illumina gene-analysis machines at his lab. "What the company offers us now is the state of the art," says Rubin. The institute uses the Illumina-Solexa sequencer to examine genetic information in plants and microbes in order to further biofuels research.

"They do a phenomenal job at coming out with great products," says Ross Muken, analyst at Deutche Bank Securities.

Illumina sells its genetic analysis products to both the high-end sequencing market--large genomic centers and labs like the Trust Beijing Genome Institute, the Sanger Institute in the U.K. and the National Institutes of Health--as well as to small labs like the Bovine SNP Consortium, which uses Illumina's products to diagnose specific diseases in cows, says Muken.

"Their genotyping products are spectacular," says Dr. Stephen Scherer, director of the Centre for Applied Genomics at the Hospital for Sick Children in Toronto. The Center uses a new Illumina product, the Human 660W-Quad BeadChip, launched last November, to target regions in the human genome that may play a role in common diseases, like autism, diabetes or heart disease.

"This experiment was not possible before because of technical challenges, but with the new 660W it is. Throughout 2009 we will see a lot of data," Scherer said.

Despite its terrific growth, technical obsolescence remains a concern. "Illumina might get leap-frogged by a novel technology," says Alastair Mackay of Garp Research and Securities. The market for genetic analysis is giant, estimated at $2.6 billion in

2008 and projected to grow to $3.6 billion by 2011. Illumina aims to lower the price of its products drastically so that one day everyone might benefit from DNA sequencing.

"One thing people don't realize is how important this technology is to the consumer market. This will become commonplace to the consumer in five, 10 years," says Illumina's Flatley. "That's what gives us confidence. It's an enormous market."

See Also:

Illumina Helps Shed Light On Cancer

Illumina's Capital Idea

Google's Genetic Start-Up

YAHOO! FINANCE

Illumina Names Dr. Daniel S. Grosu Chief Medical Officer

As New Medical Point Person for Regulators, Grosu to Provide Medical Perspective to Project Teams, Work Closely with Illumina Clinical Services Lab

BusinessWire

Business Wire - Mon, Oct 31, 2011 6:00 AM EDT

SAN DIEGO--(BUSINESS WIRE)-- Illumina, Inc. (NASDAQ:ILMN - News) today announced that it has appointed Dr. Daniel S. Grosu, M.D., as Vice President and Chief Medical Officer. In this newly created position, Dr. Grosu will play a key role in building Illumina's diagnostic capabilities through collaborations with regulatory agencies, internal product development teams, and Illumina's CLIA-certified clinical laboratory.

"Dr. Grosu brings the experience, credentials, and intellectual rigor required to move Illumina's cutting-edge technology into the clinic," said Illumina's Gregory Heath, Senior Vice President and General Manager, Diagnostics. "As Chief Medical Officer, he will assist in aggressively driving our business towards this enormous new market opportunity."

"During the next few years, we will see tremendous advances in medicine driven by technological breakthroughs in genomics and related systems biology areas," said Dr. Grosu. "These developments will bring us fully into the long-awaited era of personalized medicine, and Illumina is ideally positioned to be both a key enabler and a key player in this historic process. I am delighted to join Illumina at such an exciting time for our industry."

Prior to joining Illumina, Dr. Grosu was Group Director, Clinical Science, Clinical and Medical Affairs at Ortho-Clinical Diagnostics. He was also previously the Director and Global Clinical Leader, Global Clinical Development, Diagnostic Imaging at Bayer Healthcare Pharmaceuticals. Prior to that, Dr. Grosu was at Siemens Medical Solutions. He holds bachelor's and master's degrees from Wheaton College in Wheaton, Ill., a medical degree from Missouri's Saint Louis University, and a master's degree in business administration from the University of Oxford.

About Dr. Grosu's Compensation

Illumina will grant an option to purchase 60,000 shares of Illumina's common stock and 6,700 restricted stock units (RSUs) to Dr. Grosu as part of his inducement to join the company. An RSU represents a conditional right to receive one share of our common stock at a specified future date. The options and RSUs were approved by Illumina's compensation committee pursuant to NASDAQ Marketplace Rule 5635(c)(4) and will be granted under Illumina's New Hire Stock and Incentive Plan, which was approved by Illumina's Board of Directors on January 29, 2008. The option will have the following terms: an exercise price equal to the closing fair market value of Illumina's common stock on the grant date, a ten-year term, and vesting over four years with 25 percent of the option vesting one year from the grant date and 1/48th of the option vesting monthly thereafter. The RSUs will vest over four years with 25 percent of the RSUs vesting on each of the first four anniversaries of the grant date. The grant date for the option and RSUs to Dr. Grosu will be his start date with Illumina, which is expected to be October 31, 2011.

About Illumina

Illumina (http://www.illumina.com) is a leading developer, manufacturer, and marketer of life science tools and integrated systems for the analysis of genetic variation and function. We provide innovative sequencing and array-based solutions for genotyping, copy number variation analysis, methylation studies, gene expression profiling, and low-multiplex analysis of DNA, RNA, and protein. We also provide tools and services that are fueling advances in consumer genomics and diagnostics. Our technology and products accelerate genetic analysis research and its application, paving the way for

molecular medicine and ultimately transforming healthcare.

illumina®

Illumina Receives FDA 510(k) Clearance for Its BeadXpress(R) Multiplex Analysis System

Provides Clinically Validated Platform for the Next Generation of Molecular Diagnostic Tests

SAN DIEGO, May 04, 2010 (BUSINESS WIRE) --Illumina, Inc. (NASDAQ:ILMN) today announced that the U.S. Food and Drug Administration (FDA) has granted 510(k) market clearance for the company's BeadXpress system for multiplex genetic analysis. According to the FDA's indications of use, the BeadXpress system - consisting of Illumina's BeadXpress Reader and VeraScan software - is an in-vitro diagnostic device intended for the simultaneous detection of multiple analytes in a DNA sample utilizing VeraCode holographic microbead technology. The system is FDA cleared for in vitro diagnostic use only with FDA cleared VeraCode tests.

"This approval represents a significant and exciting transitional step for Illumina into the diagnostics field, where the potential is great for molecular medicine to make a real difference in the way disease is detected and ultimately prevented and treated," said Jay Flatley, president and CEO. "It demonstrates Illumina's ability to meet stringent regulatory requirements in designing and manufacturing an FDA-cleared in-vitro diagnostic device. This will serve as an important foundation for our future plans in the diagnostics area. Ultimately, our goal is to become a leader in translational medicine, focusing on complex diseases that benefit from high performance analysis, including genotyping, copy number, gene expression, methylation and protein analysis."

Illumina introduced the BeadXpress system in 2007 with Research Use Only kits for custom genotyping, gene expression, methylation and protein analysis. Since then it has been adopted by research, agricultural, industrial and pharmaceutical institutions worldwide. Utilizing uniquely inscribed digital microbeads, VeraCode technology provides high-quality data, broad multiplexing capability and assay flexibility. Illumina submitted the system for FDA review in September 2009.

"510(k) clearance opens up a wide range of new possibilities for our many clinical research and commercial partners, who can now pursue diagnostic development on our proven, high-performance BeadXpress platform," said Gregory Heath, Ph.D., senior vice president and general manager, Diagnostics. One of those partners is EraGen Biosciences, Inc., which concluded a licensing agreement with Illumina in 2009 to transfer their assays onto the BeadXpress System. "This clearance is a significant step forward in progressing our partnership in the clinical marketplace," said Irene Hrusovsky, M.D., president and CEO of EraGen Biosciences.

For more information, please visit http://www.illumina.com.

About Illumina

Illumina (http://www.illumina.com) is the leading developer, manufacturer, and marketer of integrated systems for the analysis of genetic variation and biological function. Using our proprietary technologies, we provide a comprehensive line of products and services that currently serve the sequencing, genotyping, and gene expression markets, and we expect to enter the market for molecular diagnostics. Our customers include leading genomic research centers, pharmaceutical companies, academic institutions, clinical research organizations, and biotechnology companies. Our tools provide researchers around the world with the performance, throughput, cost effectiveness, and flexibility necessary to perform the billions of genetic tests needed to extract valuable medical information from advances in genomics and proteomics. We believe this information will enable researchers to correlate

genetic variation and biological function, which will enhance drug discovery and clinical research, allow diseases to be detected earlier, and permit better choices of drugs for individual patients.

Forward-Looking Statements

This release contains forward-looking statements that involve risks and uncertainties. Important factors that could cause actual results to differ materially from those in any forward-looking statements include challenges inherent in new product development and manufacturing and the other factors detailed in our filings with the Securities and Exchange Commission, including our most recent filings on Forms 10-K and 10-Q, or in information disclosed in public conference calls, the date and time of which are released beforehand. We undertake no obligation, and do not intend, to update any forward-looking statements after the date of this release.

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InvestorPlace

Why Illumina's Future Remains Bright

by Gene Marcial | February 17, 2012 9:15 am

Even as the allure of **Illumina** (NASDAQ:ILMN[1]) has somewhat dimmed from its rejection of **Roche**'s (PINK:RHHBY[2]) takeover bid[3], it still is a stock to watch — and buy, as profit-taking picks up speed.

Illumina develops important research tools for large-scale analysis of genetic variation and function, where Roche wants to expand, and dominate.

Illumina's stock has continued to cool down after its torrid advance following Roche's unsolicited $44.50 offer on Feb. 7, 2012, and we should expect more selling by traders who had jumped in when the stock was zooming up on the news. The stock had skyrocketed to as high as $55 in late January — way before the formal bid was announced on Feb. 7. It has since fallen to $53, and should drop even more as Wall Street pulls its buy recommendation on the stock.

That's the time the savvy pros are expected to buy or come back to the stock. That's because they believe Illumina is worth much more than Roche's bid, which Illumina described as "grossly inadequate" and "dramatically undervalues" the company and, therefore, is not in the best interest of its shareholders.

Predictably, many Street analysts pulled their recommendation on the stock to a hold or underperform from a buy. But Illumina's management and board are undeterred.

"We feel strongly about this," said Jay Flatley, president and CEO of Illumina, who told analysts at a conference call on Feb. 7 that the company, "based on its track record and market leadership is securely positioned to capitalize on tremendous market opportunities in the years ahead."

Illumina has the "promise and potential," argued Flatley, to experience "extraordinary growth as genetic information becomes broadly applied beyond molecular biology research and into molecular diagnostics, reproductive health and cancer management."

As for the stock, some pros believe the obvious — the lower it gets, the more attractive it becomes. The stock traded as high as $79.40 per share on July 5, 2011. When it collapsed to a 52-week low of $25 on Dec. 13, 2011, it was clear to many industry watchers that Illumina had been thrown into the bargain bin. And so the likes of Roche paid heed to the stock.

Some big investors and some analysts are convinced Roche will come back with a higher bid, before somebody else in Big Pharma comes along to gobble up Illumina.

"Roche is intent in pursuing its takeover bid through private negotiations and more likely than not will submit a higher bid," said the head of an investment management company that already owns shares but declined to be named. Roche in December 2011 had offered $40 per share to acquire Illumina, which the latter also rejected.

"We believe Roche will have to raise its offer price," said Jeffrey Loo, analyst at S&P Capital IQ, as he sees "notable synergies as clinical applications developed through genetic sequencing is in its infancy, but is expected to grow significantly within several years."

Even if Illumina stays independent, many analysts believe Illumina is worth much more than Roche's $44.50 bid. The unsolicited takeover bid validates Illumina's valuation, according to some on Wall Street. Analyzing and understanding genetic variation and function "are critical to the development of personalized medicine, a key goal of genomics," Loo said. He noted that genetic variation accounts for many of the physical differences among humans, such as hair, color, height and eye color.

Such variations, he said, have important medical consequences, including a predisposition to disease and different response to drugs. The value of Illumina's tools is in assisting researchers process billions of tests necessary to convert raw genetic data into medically valuable information to improve drugs and therapies — and potentially cure diseases.

Quintin J. Lai, analyst at investment firm Robert W. Baird, who rates the stock as "outperform," has a 12-month price target of $60 per share.

"Our price target continues to be based in part on Roche's hostile bid for the company, which we believe gives Illumina a scarcity value that potentially attracts additional, possibly compelling, bids," Lai said. He noted that Roche has been an acquisitive company over the years.

Illumina has long been rumored as a target of Roche and other conglomerates, Lai said, "which could create a situation where additional players will drive the stock higher." He is optimistic that Illumina will be a long-term strong-growth company. Lai expects Illumina's earning to jump to $1.72 per share in 2013, up from an estimated $1.47 in 2012, and $1.30 in 2011.

Investors who seek to participate in the growth of genetic research in helping find a cure for a variety of diseases should look into Illumina's rejection of Roche's bid not as a bummer but an opportunity to get in on a better deal — and larger participation in the advance of medicine.

As of this writing, Gene Marcial did not hold a position in any of the aforementioned securities.

Links in this item:

1. ILMN: http://studio-5.financialcontent.com/investplace/quote?Symbol=ILMN
2. RHHBY: http://studio-5.financialcontent.com/investplace/quote?Symbol=RHHBY
3. takeover bid: http://www.investorplace.com/2012/01/roche-hostile-bid-illumina-rhhby-ilmn-gene-sequencing/

Source URL: http://www.investorplace.com/2012/02/why-illumina-ilmn-future-remains-bright-roche-rhhby/
Short URL: http://www.investorplace.com/?p=131488

ILLUM-0937

illumina

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Illumina's Board Unanimously Rejects Roche's Unsolicited Tender Offer as Inadequate

Urges Stockholders Not to Tender Their Shares

Files 14D-9 with SEC Detailing Reasons for Board's Recommendation

Hosts Conference Call for Investors at 5:00 PM ET

SAN DIEGO--(BUSINESS WIRE)--Feb. 7, 2012-- Illumina, Inc. (NASDAQ:ILMN), a leading developer, manufacturer, and marketer of life science tools and integrated systems for the analysis of genetic variation and function, today announced that its Board of Directors thoroughly reviewed Roche's unsolicited tender offer with the assistance of its financial and legal advisors and unanimously determined that the $44.50 per share cash offer is grossly inadequate in multiple respects, dramatically undervalues Illumina and is contrary to the best interests of Illumina's stockholders. Accordingly, the Board recommends that stockholders not tender any of their shares to Roche. The Company filed today a Schedule 14D-9 with the Securities and Exchange Commission ("SEC") detailing the reasons for its rejection. The letter sent today by Illumina to the Chairman of Roche also appears below.

"It is the Board's unanimous belief that Roche's offer dramatically undervalues Illumina and fails to reflect the value of the Company's unique leadership position and future growth prospects," said Jay Flatley, President & Chief Executive Officer. "Illumina has established itself as the innovation and market leader in tools for genetic analysis, with a proven track record of profitability and outperformance, resulting in significant value creation. Our industry is nascent, with the promise and potential to experience extraordinary growth in the years ahead as genetic information becomes broadly applied beyond molecular biology research, and into medical diagnostics, reproductive health and cancer management. As the growth of this industry accelerates, Illumina is singularly positioned to expand its market leadership, and to deliver value to our stockholders that is far superior to Roche's offer."

The specific reasons Illumina's Board recommends stockholders reject Roche's offer, which are detailed in its 14D-9 filing, include:

1) The Offer is Grossly Inadequate and Dramatically Undervalues Illumina's Industry-Leading Position and Growth Opportunities

The Board believes that the Offer is grossly inadequate and dramatically undervalues Illumina because it does not reflect the underlying value of Illumina's assets, operations and prospects, including its industry-leading position and growth opportunities.

Illumina is the leader in developing and commercializing tools and services for genetic analysis with an unrivaled breadth and depth of technological platforms. The Board believes that Illumina has a robust and compelling product portfolio in the life sciences tools industry, with over 2,300 peer-reviewed sequencing-related publications and more than 8,000 peer-reviewed publications using Illumina technology. These publications underscore strong third-party validation of Illumina's market-leading portfolio of nine platforms spanning next-generation sequencing, microarrays and related technologies, along with the associated consumables and informatics. This suite of powerful technologies has created one of the strongest brands in the life sciences tool sector. As evidence of this strength, today,

Illumina enjoys a 60% share of the next-generation sequencing market, a rapidly growing segment in the life science tools industry. Globally, the Board believes that approximately 90% of the world's sequencing output is produced on Illumina instruments. Illumina's history and track record of commercially effective innovation – combining game-changing technology developments with rapid product introductions – is unparalleled.

The industry as a whole and Illumina in particular have substantial growth opportunities. The Board believes that Illumina is singularly positioned in a nascent industry, which has the promise and potential to experience extraordinary growth in the years ahead as genetic information becomes broadly applied beyond molecular biology research and into medical diagnostics. The Board also believes that Illumina is positioned to continue to benefit significantly from positive trends in basic and translational research, as well as clinical and consumer demand for genomic information. Illumina is focused on capturing and realizing the significant, additional growth opportunities for sequencing in other markets, including molecular diagnostics, reproductive health, cancer management and industrial-end markets such as agricultural biotechnology, veterinary medicine and forensics. The Board believes that Illumina has developed a breadth and depth of platforms, capabilities and expertise that is poised to address the ever-expanding user base among these new markets. The Board is particularly optimistic about how platforms, such as HiSeq 2500 and MiSeq, and Illumina's ongoing proprietary discovery and development efforts, will further diversify Illumina's customer base and product applications and drive its entry into the clinical molecular diagnostics market.

Illumina's future prospects are underpinned by a robust pipeline of new products and services. The Board has a high degree of confidence in management's ability to deliver significant growth in its business. This confidence is supported by Illumina routinely achieving or exceeding its goals over many years and through many business cycles. The future prospects are also underpinned by a robust line of new products and services, which the Board believes will create powerful new tools in the armaments of researchers and healthcare providers. Moreover, the Board believes that no other company in the sector has as compelling a track record as Illumina in consistently and continuously providing new breakthrough technologies to enable faster, more accurate, reliable and affordable genetic analysis instrumentation, consumables and services.

Illumina has a long and proven track record of performance. The Board believes that the standalone value to stockholders reflected in Illumina's current business plan is far superior to the value offered to Illumina's stockholders in the Offer. In this regard, the Board considered Illumina's long and proven track record of delivering and creating value for its stockholders. Illumina has routinely delivered compelling results, achieving annual increases in revenue and EPS at compounded growth rates of approximately 42% and 26%, respectively, since 2006. Illumina has created significant value for its stockholders over the last five years (prior to Roche's announcement of its unsolicited offer), generating an 84% return compared to a 9% decline in the S&P 500. Thus, the Board believes that Illumina's business plan as an independent entity will deliver substantially greater value to its stockholders than would the Offer.

2) The Timing of the Offer is Blatantly Opportunistic and Does Not Reflect Illumina's Strong Platform of New Products and Pipeline

The Board believes that the timing of the Offer is opportunistic and disadvantageous to Illumina's stockholders because, among other things:

Roche timed its Offer opportunistically to capitalize on recent Share price dislocation. Over the past two years, Illumina delivered seven successive quarters of revenue growth, with its Share price reaching an all-time high of $79.40 as recently as July 2011. Roche first approached Illumina in

November 2011, just weeks after Illumina announced third quarter 2011 results reflecting a softness in research funding, which the Board believes to be temporary, and when its Shares were trading near a two-year low due to a short-term dislocation in the stock price. As research funding stabilizes through 2012 and the application of sequencing continues to broaden, the Board believes that Illumina is poised to continue to deliver strong growth rates in Illumina's existing markets. In addition, the Board believes that Illumina's ongoing technology development efforts will give Illumina significant potential to accelerate growth further in the years ahead.

Roche timed its Offer opportunistically to capture for itself the substantial growth opportunities inherent in Illumina's strong platform of new products and pipeline. As Illumina continues to develop what it believes to be a significant pipeline of platforms and solutions for genetic analysis, the Board believes that Illumina will maintain and build on its record of achieving strong and diverse customer adoption. For example, Illumina's MiSeq platform has the potential to deliver the power of Illumina's sequencing technology to new users in a user-friendly package, while the recently announced HiSeq 2500 continues to enhance performance for users demanding the capability to sequence a human genome in a day. Illumina's BaseSpace informatics solution lowers the information technology hurdles, further enabling increased adoption of sequencing technologies. Illumina's product portfolio also includes microarray, PCR and mid-level multiplex analysis platforms and innovative reagent and software solutions that can be used by customers across the entire genetic analysis workflow. Illumina's FastTrack service offering also provides an expanding customer base across the pharmaceuticals, biotechnology, clinical and consumer markets with access to genetic analysis technology. In addition, Illumina is developing proprietary clinical content for the eventual development of diagnostics in the oncology field, including in ovarian, gastric and colorectal cancers, as well as autoimmune diseases, genetic diseases and maternal fetal medicine. Finally, the leadership of Illumina's platforms and its growth potential is further demonstrated by numerous partnerships with leading companies in the molecular diagnostics space, such as Sequenom, Foundation Medicine and others. The Board believes these proprietary diagnostics represent a sizeable long-term growth opportunity for Illumina.

The Board believes that Illumina is on the verge of benefitting from its continuous significant investment in novel platforms and has a promising pipeline that will drive sustainable future growth and value in the near, medium and long term. To date, the Board believes that Illumina has delivered significant innovation, growth and, consequently, stockholder value. However, the Board also believes that Illumina is well-positioned to further benefit substantially from compelling market opportunities in genetic analysis and diagnostics given Illumina's technology platforms, product pipeline, management team and proven culture of innovation.

3) The Offer Fails to Capture Illumina's Value as an Enabler of Personalized Healthcare

The Board believes that the Offer fails to recognize Illumina's central role in enabling a forward-looking vision of personalized medicine and the value Illumina creates for various stakeholders involved in the delivery of healthcare globally. Genetic information and its clinical application are gaining increasing importance, proving central to the pharmaceutical discovery and development process. Likewise, genetic information is being employed in the discovery and development of novel biomarkers, companion diagnostics and clinical molecular diagnostics solutions. When coupled, these therapeutics and in-vitro diagnostics enable the delivery of personalized medicine, benefiting patients and healthcare providers, as well as the pharmaceutical, biotechnology and in-vitro diagnostics industries, among other stakeholders. The Board believes that Illumina's technologies, products and services are catalysts and critical to driving the growing use of genetic information across healthcare.

4) Roche's Tactics Seek to Disadvantage Illumina's Stockholders

The Board believes that Roche's urgency in launching the Offer reflects its tactic to act upon the short-term dislocation in Illumina's stock price. Purchaser's $44.50 per Share proposal is $34.90 below Illumina's 52-week high of $79.40. Thus, when the closing stock price was $37.69 on January 24, 2012, the Board believes that Roche acted to take advantage of Illumina's depressed stock price levels in its attempt to transfer the significant future value of Illumina from its stockholders to Roche and its stockholders.

5) The Offer Values Illumina at a Price Below Recent Trading Levels

The market price of Illumina's stock has remained above the Offer price of $44.50 per Share since the public announcement of the Offer on January 25, 2012. The closing price per Share on the NASDAQ Global Select Market on February 6, 2012, the last trading day prior to the date of this Statement, was $51.97, which is 17% greater than the Offer price of $44.50 per Share.

6) The Offer's Conditions Create Significant Uncertainty and Risk

The Board believes that the numerous conditions set forth in the Offer create significant uncertainty and risk as to whether the Offer can be completed and the timing for completion. As described in "Item 2. Identity and Background of Filing Person – Tender Offer" above and in Annex A attached hereto, the Offer is subject to a litany of conditions, including, among others, the following conditions: (1) the Minimum Tender Condition, (2) the Rights Condition, (3) the Section 203 Condition, (4) conditions relating to the absence of any agreement of, or transaction by, Illumina that impairs Purchaser's or Roche's ability to acquire Illumina or otherwise diminishes the expected value to Roche of the acquisition of Illumina, (5) conditions relating to antitrust considerations in the United States and foreign jurisdictions, (6) conditions relating to the absence of litigation or other adverse actions, (7) conditions related to Exon-Florio, (8) conditions relating to the absence of material adverse effects on Roche and its subsidiaries, taken as a whole, or Illumina and its subsidiaries, taken as a whole, (9) conditions relating to the performance of market indices, (10) conditions relating to the absence of changes to the constituent documents of Illumina or any of its subsidiaries, (11) conditions relating to the absence of adverse effects on Illumina's contracts and (12) conditions relating to certain changes in ownership of Illumina's securities. The Board believes that the effect of these, and other numerous conditions, is that Illumina's stockholders cannot be assured that Purchaser will be required to consummate the Offer. In addition, the Schedule TO provides that the conditions to the Offer are for the sole benefit of Roche, Purchaser and their affiliates and may be asserted by Purchaser or Roche in Purchaser's sole discretion regardless of the circumstances (including any action or omission by Roche or Purchaser) giving rise to such conditions.

7) Illumina Has Received Inadequacy Opinions from Its Financial Advisors

The Board considered the fact that, on February 7, 2012, each of Goldman, Sachs & Co. and BofA Merrill Lynch rendered an oral opinion to the Board, subsequently confirmed in writing, that, as of the date of such opinion and based upon and subject to the factors and assumptions set forth in its written opinion, the consideration proposed to be paid to the holders of Shares (other than Purchaser and its affiliates) pursuant to the Offer was inadequate from a financial point of view to such holders. The full texts of the written opinions of Goldman, Sachs & Co. and BofA Merrill Lynch, each dated February 7, 2012, which set forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with such opinion, are attached as Annexes B and C to Illumina's 14D-9, respectively. Each of Goldman, Sachs & Co. and BofA Merrill Lynch provided its opinion for the information and assistance of the Board in connection with its consideration of the

Offer. The opinions of Goldman, Sachs & Co. and BofA Merrill Lynch are not recommendations as to whether or not any holder of Shares should tender such Shares in connection with the Offer or any other matter.

The full text of Illumina's 14D-9 filing is available on the SEC's website, www.sec.gov and in the "Investor Relations" section of the Company's website at www.illumina.com. "Purchaser" refers to CKH Acquisition Corporation, an indirect wholly owned subsidiary of Roche that, together with Roche, is making the unsolicited tender offer.

Following is a copy of the letter Illumina sent today to Roche's Chairman:

Dr. Franz B. Humer
Chairman
Roche Holding Ltd.
CH-4070 Basel
Switzerland

Dear Franz:

Our Board of Directors, along with our financial and legal advisors, met on January 15 and again on January 17 to review and consider both Illumina's strategic plan and Roche's January 3 proposal to acquire Illumina for $40 per share in cash. We met again on February 2 to review Roche's unsolicited tender offer to acquire Illumina for $44.50 per share in cash commenced on January 27, and again on February 7 to complete our review and finalize our recommendation.

After careful consideration, including a thorough review of the terms and conditions of Roche's tender offer, our Board of Directors unanimously determined that Roche's offer is grossly inadequate in multiple respects, dramatically undervalues Illumina, and is not in the best interests of Illumina's stockholders. Our Board strongly believes that Illumina's business plan as an independent entity will deliver value to our stockholders that is far superior to Roche's offer.

Illumina has established itself as the innovation and market leader in tools for genetic analysis, with a proven track record of profitability and outperformance, resulting in significant value creation for our stockholders. Our industry is nascent, with the promise and potential to experience extraordinary growth in the years ahead as genetic information becomes broadly applied beyond molecular biology research, and into medical diagnostics, reproductive health and cancer management. As the growth of this industry accelerates, Illumina is singularly positioned not only to maintain but expand its market leadership, translating into tremendous opportunities for our stockholders, customers, healthcare providers and patients, and other key stakeholders.

Today, we enjoy a 60% share of the global next-generation sequencing market, and we also believe that approximately 90% of the world's sequencing output is produced on Illumina instruments. Our market-leading services offering continues to benefit significantly from positive trends in basic and translational research, as well as clinical and consumer demand for genomic information. As research funding stabilizes through 2012 and the application of sequencing continues to broaden, Illumina is poised to continue to deliver strong growth rates in our existing businesses. In addition, our Board believes that Illumina's ongoing technology and market development efforts will give us enormous potential to accelerate growth further in the years ahead.

ILLUM-0942

As you know, the technologies developed by Illumina have been fundamental to the advances

achieved over the past decade in understanding the human genome, as well as that of hundreds of other species. Illumina has delivered to the market the most compelling commercial product portfolio in the life science tools industry, with over 2,300 peer-reviewed sequencing-related publications and more than 8,000 peer-reviewed publications using Illumina technology. These publications underscore strong third party validation of our market-leading portfolio of nine platforms spanning next-generation sequencing, microarrays and related technologies along with the associated consumables and informatics. Illumina's brand and franchise, uniformly recognized among researchers and customers alike, reflect a clear track record of delivering breakthrough systems, accompanied by industry-leading reliability and service.

Our history and track record of commercially effective innovation – combining game-changing technology developments with rapid product introductions – is unparalleled, and our current product portfolio, robust as it is, does not begin to fully reflect the value-creation potential of our research and development pipeline and the numerous ways in which we continue to push the envelope of genetic analysis scale and accessibility. Illumina is focused on capturing and realizing the significant, additional growth opportunities for sequencing in other markets, including molecular diagnostics, cancer management and industrial end markets such as agricultural biotechnology, veterinary medicine and forensics. We are particularly optimistic about how platforms like HiSeq 2500 and MiSeq, and our ongoing proprietary discovery and development efforts, will further diversify our customer base and product applications and drive our entry into the clinical molecular diagnostics market. Our continued investment in research and development promises to yield significant ongoing technology and product innovation with superior performance, increased utility and reliability, and greater ease of use, speed and affordability.

In addition, Illumina's management team has routinely exceeded shareholder expectations and delivered compelling results, achieving annual increases in revenue and EPS at compounded growth rates of approximately 42% and 26%, respectively, since 2006. Our management team has a track record of solid execution, and of effectively seizing and defining new market opportunities by making sound, high-value investments in promising technologies.

In closing, our Board has noted your decision to opportunistically time your offer to a temporary dislocation in our stock price. Our Board is confident in Illumina's strong prospects for continued and substantially greater value creation in the months and years ahead.

Against this backdrop – for all of these reasons and more – your proposal fails to compensate our stockholders for the intrinsic and scarcity value associated with Illumina's unmatched leadership position.

The Board of Directors of Illumina has taken, and will continue to take, its fiduciary responsibility to stockholders extremely seriously. Our Board and Illumina management are fully committed to building, fostering and protecting Illumina's value and to acting in the best interests of all our stockholders. At this juncture, we believe the only course of action consistent with those principles is to vigorously resist Roche's blatantly opportunistic attempt to acquire Illumina at a grossly inadequate price. Furthermore, we continue to believe that our highly qualified, independent directors are better positioned to act in our stockholders' interests than directors selected and compensated by you to advance your own strategic objectives at the expense of our stockholders.

ILLUM-0943

Sincerely,

William H. Rastetter, Ph.D.
Chairman

Jay T. Flatley
President & CEO

cc: Board of Directors of Illumina

Goldman, Sachs & Co. and BofA Merrill Lynch are acting as financial advisors and Dewey & LeBoeuf LLP is acting as legal counsel to Illumina.

Conference Call & Webcast Details

Illumina will host a conference call to discuss the Board of Directors' recommendation and the Company's 4Q11 earnings results, beginning at 2:00 pm Pacific Time (5:00 pm Eastern Time) today, Tuesday, February 7, 2012. Interested parties may listen to the call by dialing 888-455-2265 (passcode: 8701498), or if outside North America, by dialing 719-457-2637 (passcode: 8701498). A slide presentation and live audio webcast will be available in the Investor Relations section of Illumina's web site under the "Company" tab at www.illumina.com.

A replay of the conference call will be available from 5:00 pm Pacific Time (8:00 pm Eastern Time) on February 7, 2012 through February 14, 2012 by dialing 888-203-1112 (passcode: 8701498), or if outside North America, by dialing 719-457-0820 (passcode: 8701498).

About Illumina

Illumina (www.illumina.com) is a leading developer, manufacturer, and marketer of life science tools and integrated systems for the analysis of genetic variation and function. We provide innovative sequencing and array-based solutions for genotyping, copy number variation analysis, methylation studies, gene expression profiling, and low-multiplex analysis of DNA, RNA and protein. We also provide tools and services that are fueling advances in consumer genomics and diagnostics. Our technology and products accelerate genetic analysis research and its application, paving the way for molecular medicine and ultimately transforming healthcare.

FORWARD-LOOKING STATEMENTS

This communication may contain statements that are forward-looking. Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. Among the important factors that could cause actual results to differ materially from those in any forward-looking statements are (i) our ability to develop and commercialize further our sequencing, BeadArray™, VeraCode®, Eco™, and consumables technologies and to deploy new sequencing, genotyping, gene expression, and diagnostics products and applications for our technology platforms, (ii) our ability to manufacture robust instrumentation and consumables, (iii) significant uncertainty concerning government and academic research funding worldwide as governments in the United States and Europe, in particular, focus on reducing fiscal deficits while at the same time confronting slowing economic growth, (iv) business disruptions associated with the tender offer commenced by CKH Acquisition Corporation, a wholly owned subsidiary of Roche Holding Ltd, and (v) other factors detailed in our filings with the U.S. Securities and Exchange Commission ("SEC"), including our most recent filings on Forms 10-K and 10-Q, or in information disclosed in public conference calls, the date and time of which are released beforehand. Illumina undertakes no

obligation, and does not intend, to update these forward-looking statements.

ADDITIONAL INFORMATION AND WHERE TO FIND IT

This communication does not constitute an offer to buy or a solicitation of an offer to sell any securities. In response to the tender offer commenced by CKH Acquisition Corporation, a wholly owned subsidiary of Roche Holding Ltd, Illumina has filed a solicitation/recommendation statement on Schedule 14D-9 with the SEC. INVESTORS AND SECURITY HOLDERS OF ILLUMINA ARE URGED TO READ THE SOLICITATION/RECOMMENDATION STATEMENT AND OTHER DOCUMENTS FILED WITH THE SEC CAREFULLY IN THEIR ENTIRETY (WHEN THEY BECOME AVAILABLE) BECAUSE THEY CONTAIN IMPORTANT INFORMATION. Investors and security holders will be able to obtain free copies of these documents (when they become available) and other documents filed with the SEC by Illumina through the web site maintained by the SEC at http://www.sec.gov. Investors and security holders also will be able to obtain free copies of these documents, and other documents filed with the SEC by Illumina, from Illumina by directing a request to Illumina, Inc., Attn: Investor Relations, Kevin Williams, MD, kwilliams@illumina.com.

In addition, Illumina will file a proxy statement and a WHITE proxy card with the SEC. The definitive proxy statement will be mailed to security holders of Illumina. INVESTORS AND SECURITY HOLDERS OF ILLUMINA ARE URGED TO READ THE PROXY STATEMENT AND OTHER DOCUMENTS FILED WITH THE SEC CAREFULLY IN THEIR ENTIRETY (WHEN THEY BECOME AVAILABLE) BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION. Investors and security holders will be able to obtain free copies of these documents (when they become available) and other documents filed with the SEC by Illumina through the web site maintained by the SEC at http://www.sec.gov. Investors and security holders also will be able to obtain free copies of the proxy statement, and other documents filed with the SEC by Illumina, from Illumina by directing a request to Illumina, Inc., Attn: Investor Relations, Kevin Williams, MD, kwilliams@illumina.com.

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Source: Illumina, Inc.

ILLUM-0945

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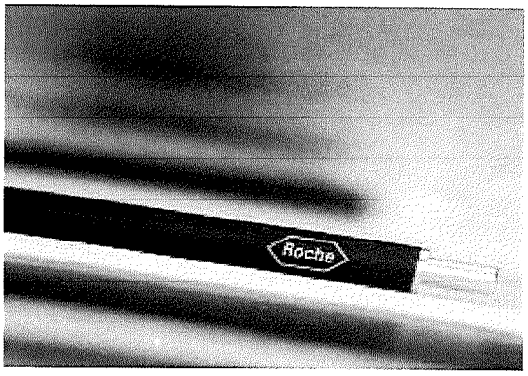
Roche sees alternatives if Illumina bid fails

Tue, Mar 6 2012



By Paul Arnold

ZURICH (Reuters) - Swiss drugmaker Roche (ROG.VX: Quote, Profile, Research, Stock Buzz) put pressure on U.S. gene decoder Illumina (ILMN.O: Quote, Profile, Research, Stock Buzz) to consider its hostile $5.7 billion bid, saying it sees other alternatives if the takeover fails.

"Roche and Illumina both stand to benefit from a rapid merger. However, this is a sector where we have other options should the transaction fail over price," Roche Chairman Franz Humer told the company's annual shareholder meeting on Tuesday.

"We continue to believe that our offer to Illumina's shareholders is attractive and fair. It remains our preference to enter into a negotiated transaction with Illumina and to commence discussions to that end."

Illumina has adopted a so-called poison pill defense strategy for Roche's unsolicited bid, and has advised shareholders not to tender their shares on the grounds the price was too low.

The San Diego-based company makes machines that decode a person's entire genome and would give Roche a leading position in the market for gene sequencing, which can help better identify which patients benefit from a given drug.

Humer said other companies were making quantum leaps in gene sequencing, noting Roche itself was working on such new technology.

Other players in the gene sequencing space include Ion Torrent, a unit of Life Technologies (LIFE.O: Quote, Profile, Research, Stock Buzz), as well as small operators like privately held Oxford Nanopore Technologies, which last month unveiled a palm-sized DNA sequencer.

But analysts said Illumina was clearly the market leader and Roche was unlikely to abandon its bid. Rather, Humer's comments were seen as a move to unnerve Illumina, whose stock price would tumble if Roche ditched its offer.

"There are alternatives, but not of Illumina's quality," said Karl-Heinz Koch of Helvea.

Martin Voegtli of Kepler Capital Markets agreed, adding: "I don't expect Roche will walk away from Illumina."

"If the shareholders notice that they can't get much more, the pressure will increase to examine a combination of the Roche and Illumina businesses."

Roche has been forging ahead in developing targeted therapies and Illumina's technology would help it to progress further in this field as gene sequencing is central to such "personalized" medicine, particularly in cancer.

The Swiss group extended its offer for Illumina last week, showing its willingness to play a waiting game, a strategy that has paid off with takeover targets in the past, although analysts believe it will probably ultimately have to raise its bid to win control.

Roche took seven months to buy U.S. diagnostic test-maker Ventana for $3.4 billion in 2008, when chief executive Severin Schwan was head of its diagnostics unit. It first made an unsolicited, low-end bid before increasing its original offer by 19 percent - a pattern analysts see being repeated with Illumina.

Roche shares were up 0.2 percent at 1200 GMT, outperforming a 0.3 percent softer sector index.

(Reporting by Paul Arnold; writing by Emma Thomasson; Editing by Dan Lalor and Ben Hirschler)

Profile:

Illumina Inc (ILMN.OQ)

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ILMN.OQ on NASDAQ Stock Exchange Global Select Market

50.47 USD

3:57pm EST

Price Change (% chg)

$0.12 (+0.24%)

Prev Close	Day's High	Volume	52-wk High
$50.35	$50.88	127,110	$79.40
Open	**Day's Low**	**Avg. Vol**	**52-wk Low**
$50.42	$50.33	1,858,183	$25.57

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FULL DESCRIPTION

Illumina, Inc. (Illumina), incorporated in April 1998, is a developer and manufacturer of life science tools and integrated systems for the analysis of genetic variation and function. The Company provides a line of genetic analysis solutions, with products and services that serve a range of interconnected markets, including sequencing, genotyping, gene expression, and molecular diagnostics. The Company is organized in two business segments: Life Sciences and Diagnostics. Its Life Sciences business unit includes all products and services related to the research market, namely the product lines based on its sequencing, BeadArray, VeraCode, and real-time PCR technologies. Its Diagnostics business unit focuses on molecular diagnostics. Its customers include genomic research centers, academic institutions, government laboratories, and clinical research organizations, as well as pharmaceutical, biotechnology, agrigenomics, and consumer genomics companies. The Company sells its products to a number of customers outside the United States, including customers in other areas of North America, Europe, and the Asia-Pacific region. In January 2011, the Company acquired Epicentre Technologies Corporation, a provider of nucleic acid sample preparation reagents and specialty enzymes for sequencing and microarray applications. In April 2010, the Company purchased Helixis, Inc. In July 2010, the Company introduced the Eco Real-Time PCR System.

In its deoxyribonucleic acid (DNA) sequencing systems, the Company applies the SBS biochemistry on microscopic clusters of DNA. Each cluster starts as a single DNA molecule fragment, typically a hundred bases long, attached to the inside surface of a flow cell. The Company then uses amplification biochemistry to create copies of each starting molecule. Its BeadArray technology combines microscopic beads and a substrate in a manufacturing process to produce arrays that can perform many assays simultaneously, enabling large-scale analysis of genetic variation and biological function. Its BeadArray technology consists of microscopic silica beads, each bead covered with hundreds of thousands of copies of oligonucleotides (oligos). The VeraCode technology platform leverages the power of digital holographic codes to provide a detection method for multiplex assays. VeraCode enables multiplexing from 1-384-plex in a single well. The VeraCode technology consists of cylindrical glass beads (measuring 240 microns in length by 28 microns in diameter) inscribed with a digital holographic code to designate and track the specific analyte or genotype of interest throughout the multiplex reaction. Real-Time PCR (PCR) is used to amplify and simultaneously quantify a targeted DNA molecule, with applications in gene expression, viral quantification, array data validation, pathogen detection, and genotyping.

Sequencing/Array Combination Platforms

The HiScanSQ combines its SBS sequencing technology and iScan microarray analysis instrumentation into one system, with a modular design that can evolve with changing research needs. This flexible system allows researchers to use its sequencing and array technologies interactively to bring increased power to their experiments.

Array Platforms

The iScan supports its Infinium, GoldenGate, DASL, gene expression, and methylation assays. Its BeadXpress Reader is designed for both small and high-throughput laboratories conducting molecular testing with

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multiplexed-based assays deployed on our VeraCode bead technology. It supports a range of applications, including DNA, ribonucleic acid (RNA), and protein-based assays.

Consumables

Its InfiniumHD Whole-Genome BeadChips represent its technologically advanced multi-sample DNA analysis microarrays, enabling the interrogation of up to 2.5 million markers per sample, depending on the BeadChip. In addition to the Omni family, the HumanOmni2.5 and HumanOmni1S BeadChips, provide common and rare variants identified by the 1000 Genomes Project for performing genome-wide association studies (GWAS) projects. This product line also includes agriculturally relevant genome panels, such as the BovineHD and MaizeSNP50 BeadChips. The Company offers iSelect Custom Genotyping BeadChips. Its GoldenGate Universal-32 Sample BeadChip provides a flexible customized solution for mid-plex genotyping assays performed on the iScan System or HiScan, while the VeraCode GoldenGate genotyping arrays are well-suited for low-plex genotyping on the BeadXpress Reader.

Real-time PCR Platforms

The Eco Real-Time PCR System provides qPCR results. Its user interface provides experimental design and setup, enabling the system to perform qPCR on 48 samples in less than 40 minutes.

FastTrack Services

The Company offers genotyping services to academic institutions, biotechnology, and pharmaceutical customers. The in-house molecular geneticists help customers perform GWAS projects, linkage analysis, and fine mapping studies. The Company employs a range of its products, including standard and custom GoldenGate, standard Infinium and Infinium HD, and iSelect Infinium assays.

Service Partnership Programs

The Company has developed partnered programs, such as its Certified Service Providers (CSPro) and Illumina Genome Network (IGN) to create a world-wide network of Illumina technology-enabled service offerings. There are over 50 Illumina CSPro-certified organizations worldwide providing sequencing, genotyping, and gene expression services using its technologies and products. The genome sequencing service network comprises CSPro-certified academic and commercial organizations possessing 10 or more HiSeq 2000 or Genome Analyzer systems.

Individual Genome Sequencing

Illumina's Individual Genome Sequencing Service provides personal genome sequencing for consumers. It is performed in its CLIA-certified, CAP-accredited laboratory using its next-generation sequencing technology. The service is built around physician-patient consultation, with a physician's order required to initiate the process. The offering includes sequencing of an individual's DNA to 30-times depth, providing information on SNP variation and other structural characteristics of the genome, such as insertions, deletions, and rearrangements. The Company is collaborating with a number of partners to provide secondary data analysis, such as calculation of disease risk, ancestry, and information on traits of interest. The service requires individuals to follow its physician-mediated process, which involves pre-service consultation, patient consent, and a seven-day period, during which the patient may withdraw consent. The final genome data is returned to the physician, who in turn delivers it to the consumer.

The Company competes with Affymetrix, Inc., Agilent Technologies, Inc., Beckman Coulter, Inc., Complete Genomics, Inc., Helicos BioSciences Corporation, General Electric Company, Life Technologies Corporation, Luminex Corporation, Pacific Biosciences of California, Inc., QIAGEN N.V., Roche Diagnostics Corp. and Sequenom, Inc.

» Full Overview of ILMN.OQ

OFFICERS & DIRECTORS

Name	Compensatior
William Rastetter	
Jay Flatley	
Marc Stapley	
David Walt	
Mostafa Ronaghi	

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ILLUM-0951

Illumina outlook drags down genetic tools sector

Fri, Oct 7 2011

By Kavyanjali Kaushik

(Reuters) - Shares of Illumina Inc (ILMN.O: Quote, Profile, Research, Stock Buzz) fell 35 percent and dragged down its peers on Friday, a day after the maker of genetic analysis tools forecast a weak third quarter on uncertainty related to research funding in the United States and Europe.

Declining sales in the wake of weakening global markets and a lack of clarity on government funding levels have pushed down the stocks of Illumina and its peers by about a fifth over the past three months.

"The life science tool sector saw a softening in academic spending market as early as the second quarter and most of the companies realized that academics right now are in the state of uncertainty," Robert W. Baird & Co analyst Quintin Lai told Reuters.

Companies such as Illumina, Affymetrix Inc (AFFX.O: Quote, Profile, Research, Stock Buzz) and Life Technologies (LIFE.O: Quote, Profile, Research, Stock Buzz) get 20-40 percent of their revenue from U.S. government-backed research and could be hurt by a budget squeeze.

Illumina shares took the most beating as the company was more at exposure than the others, Lai said.

"What was built into the stock price was that Illumina was not going to have any hiccup and that Life Technologies and Affymetrix are going to be suffering the headwinds," Lai said.

"Now, when you see results like Illumina's pre-release last night, the stock got hit really big today."

San Diego, California-based Illumina, which currently serves life-sciences research, applied markets and the molecular diagnostics market, said it expects these conditions to continue through at least the fourth quarter and suspended its full-year outlook.

Illumina said it expects to post revenue of about $235 million for the third quarter, compared with Wall Street expectations of $278 million.

Citigroup said while there has been ongoing concern over a weakening environment for the tools sector, the magnitude of Illumina's miss was a surprise and cut its price target on the stock to $32 from $44.

Three other brokerages also cut their price targets on Illumina's stock.

Illumina's shares were at $27.80 in late morning trade on Nasdaq after falling to a nearly two-year low of $25.71. Shares of Bruker BioSciences Corp (BRKR.O: Quote, Profile, Research, Stock Buzz) were down 4 percent at $13.15, while those of bigger rival Thermo Fisher Scientific Inc (TMO.N: Quote, Profile, Research, Stock Buzz) were down 6 percent at $50.36.

Affymetrix's stock was down 6 percent at $5.35 and Life Technologies shares lost 7 percent of their value to trade at $36.50.

(Reporting by Kavyanjali Kaushik in Bangalore; Editing by Sayantani Ghosh and Sriraj Kalluvila)

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Exhibit 230

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[Meridian Bio FY 2015 Guidance Below Street Expectations]
GenomeWeb Daily News, 09/02/2014 - 11:36
expectations for our foodborne category. A number of new product launches are anticipated, including **illumigene** ...

[Meridian Bio FY Q3 Sales Inch Up]
GenomeWeb Daily News, 07/24/2014 - 14:53
that Meridian Bio added 30 new **illumigene** customers during the quarter and a total of 94 new assays were ...

[Dx Focus: Meridian Illumigene Assays; Biofactory FMR1 Identification Kit]
PCR Insider, 05/29/2014 - 15:10
by the US Food and Drug Administration, and are based on Meridian's **illumigene** platform, which uses ...

[Canada Approves Meridian Bio's Molecular Assays for M. Pneumonia, B. Pertussis]
GenomeWeb Daily News, 05/28/2014 - 13:03
of the **illumigene** mycoplasma and pertussis products to the illumipro-10 test menu offers current illumipro-10 system ...

[Meridian Bioscience Reports 6 Percent Jump in Fiscal Q2 Sales]
PCR Insider, 04/24/2014 - 09:37
Illumigene Group A and Group B Streptococcus sales. **Illumigene** C. difficile revenues also ...

[Dx Focus: Quest's Focus Diagnostics; IMDx and Abbott; Meridian Bio; DermTech International]
PCR Insider, 03/27/2014 - 15:59
to report a final result, increasing the time to manage the patient appropriately. With **Illumigene** ...

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[FDA Clears Meridian Illumigene Pertussis Test]
GenomeWeb Daily News, 03/27/2014 - 15:44
appropriately. With **Illumigene** Pertussis, healthcare providers can collect, test, and treat same day for optimal ...

[Meridian Reports 1 Percent Drop in Q1 Revenues; Mixed Results in Dx, Life Science Segments]
GenomeWeb Daily News, 01/22/2014 - 10:23
Illumigene customers in Q1, a similar number as compared to the same period last year; and added 36 new tests ...

[Meridian Sees Strong MDx Sales amid Lackluster Prelim Q1 Revenues; Opens Bioline Singapore Office]
PCR Insider, 01/16/2014 - 15:04
for infectious disease in ambulatory patients, particularly its **Illumigene** Group B and Group A strep tests, along ...

[Meridian's Fiscal Q1 Preliminary Results Fall Short of Expectations]
GenomeWeb Daily News, 01/16/2014 - 09:43
that the company's **Illumigene** Pertussis test for diagnosing whooping cough "will provide meaningful revenues once FDA ...

[Study Validates Lumora's Isothermal Amp-based C. Diff Assay Using Heat Elution Sample Prep]
PCR Insider, 01/09/2014 - 14:57
the authors noted, the **Illumigene** assay, while fast and inexpensive, uses a seven-step, four-transfer process ...

[Researchers Share Early Clinical Data on Performance of Quidel MDx Assays]
PCR Insider, 11/21/2013 - 15:58
Strep groups and takes about 75 minutes to perform. The **Illumigene** test takes about the same amount ...

[Meridian Bioscience Posts 13 Percent Uptick in Q4 Revenues; 9 Percent FY13 Growth]
GenomeWeb Daily News, 11/07/2013 - 10:20
our focus on the **Illumigene** molecular system," Kraeutler said in a statement. He added that Meridian ...

[Meridian Bioscience Initiates Guidance for FY 2014, Reaffirms FY 2013 Guidance]
GenomeWeb Daily News, 09/09/2013 - 13:30
on the **illumigene** platform with tests for pertussis and chlamydia/gonorrhea expected to launch in the first half ...

[Meridian Bio Q3 Revenues Increase 12 Percent]
GenomeWeb Daily News, 07/25/2013 - 08:51
million. EPS is expected in the range of $.86 and $.91. (Meridian Bioscience, **illumigene**, quarterly ...

[Dx Focus: Meridian Bioscience Illumigene Mycoplasma; CDC Novel Coronavirus Assay]
PCR Insider, 06/13/2013 - 15:47
of in vitro diagnostics to detect the virus. (Meridian Bioscience, **illumigene**, US Centers for Disease ...

[FDA Clears Meridian Bioscience M. Pneumonia MDx]
GenomeWeb Daily News, 06/10/2013 - 13:38
that the company expects to file for FDA clearance for its **illumigene** pertussis test in the fall. (Meridian Bioscience, DNA amplification, **illumigene**, regulatory clearance, US Food and Drug Administration, Atypical ...

[Meridian Bioscience Reports Flat Q2 Sales]
GenomeWeb Daily News, 04/25/2013 - 09:35
of **illumigene** accounts to 1,026 servicing about 1,200 hospitals. Kraeutler added that the company anticipates clearance from the US Food and Drug Administration of the **illumigene** Mycoplasma assay "shortly," ...

[Dx Focus: Meridian's Illumigene Group A, B Strep Tests; Cynvenio Biosystems' LiquidBiopsy Service]
PCR Insider, 03/21/2013 - 15:35
with an estimated 15 million visits per year in the US. Clinical studies show that **Illumigene** Group A Streptococcus ...

FDA Recategorizes Meridian's Molecular Strep A and B Assays as 'Moderate Complexity' Tests

GenomeWeb Daily News, 03/19/2013 - 09:59

the benefits of Meridian's **illumigene** platform will be available to moderate complexity labs in US hospitals ...

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trials for two new isothermal **Illumigene** assays for Chlamydia trachomatis and Neisseria gonorrhoeae ...

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assays, the authors said. Meridian's **Illumigene** GAS test uses loop-mediated isothermal amplification, ...

Meridian Bioscience Reports 13 Percent Spike in Q1 Revenues Driven by Growth in Illumigene Products

PCR Insider, 01/24/2013 - 16:26

that time the company's **Illumigene** assays, which are based on loop-mediated isothermal amplification, have become a key growth driver at the company. In the first quarter, Meridian's **Illumigene** portfolio ...

1 | 2 | 3 | next ›

Science

Researchers from the Broad Institute, Massachusetts General Hospital, Yale School of Medicine, and elsewhere used a combination of genetic, gene expression, and epigenetic marker information to map the causal variants contributing to 21 inflammatory autoimmune conditions and begin unraveling their regulatory effects. Their results suggest that roughly 90 percent of the causal variants identified in these conditions so far fall in non-coding parts of the genome, affecting enhancers and other regulatory sites.

Business

Qiagen has signed a master collaboration agreement to develop and commercialize companion diagnostics to pair with drugs being developed by Astellas Pharma for cancer and other diseases. The deal provides Tokyo-based Astellas access to Qiagen's development capabilities for assays based on PCR, next-generation sequencing, and multi-modal testing technologies using liquid and tissue biopsies. Qiagen noted that the agreement with Astellas is its eighth framework agreement for developing CDx tests in collaboration with biopharma companies.

Funding

The University of Oxford received a £35 million grant from the Higher Education Funding Council for England through its UK Research Partnership Investment Fund to launch the Precision Cancer Medicine Institute, a center that will use genomics and molecular diagnostics, among other technologies, to carry out research into cancer therapies. The center expects to receive more than £75 million from financial contributions and support in kind from partners in the project, such as Cancer Research UK, Roche Diagnostics, and GE Healthcare.

GenomeWebinars

Novel Applications of NGS in Cancer Diagnostics

Sponsor: Qiagen

Date: Nov. 19

This live online seminar will address new applications for next-generation sequencing in routine histopathological diagnostics and molecular pathology.

Speakers: Reinhard Büttner, director of the Institute of Pathology at Cologne University Hospital; **Vikram Devgan**, head of Biological Research Content, Qiagen

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